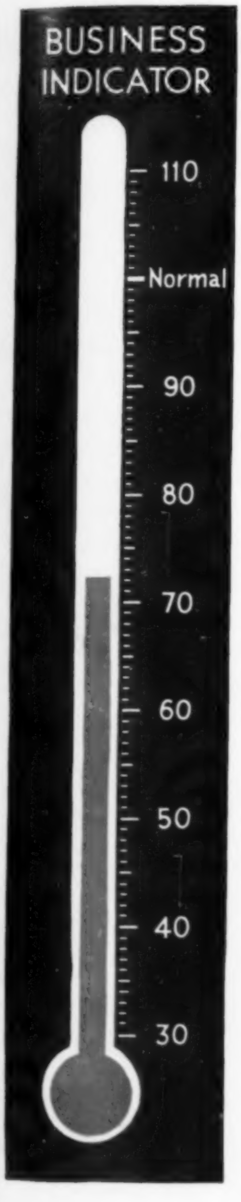
THE BUSINESS WEEK

OCT 21, 1931



Stabilization of fundamental financial factors continues to be disturbed by accumulating difficulties in foreign conditions and by delay in organizing domestic and international efforts . . . . The stimulus to confidence looked for from private bank pool and other domestic administration programs has slackened under poor publicity and slow organization, and effects on the banking situation and security markets are still uncertain . . . . The sharp tightening of money rates, which is so far their only evident influence, further postpones the prospects of constructive credit expansion, while deterioration of international relations and danger of further political and financial disturbances abroad make the outlook for cooperative action on a world scale more dubious . . . . Despite these disappointments there are some slight evidences of improvement in domestic business as internal economic adjustments proceed . . . . Basic commodity prices have apparently stabilized at bottom levels, while retail prices rapidly recede . . . . Employment shows some seasonal expansion, merchandise freight movement has risen to meet holiday requirements, while steel demand has quickened slightly from scattered sources . . . . Our index has shown reassuring resistance to further decline since August . . . . The continuous succession of shocks during the past two years has apparently hardened the nervous system of American business against bad news and developed immunity to further disturbance from foreign forces . . . . On the rock bottom basis of domestic needs it is beginning to rebuild a more stable structure.

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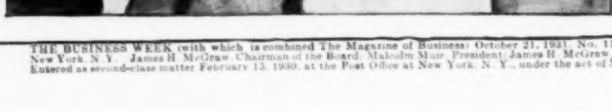
Western Electric

Makers of your Bell telephone and leaders in the development of sound transmission



The Western Electric Radio Distribution System is distributed by Graybar Electric Company

THE BUSINESS WEEK (with which is combined The Magazine of Business) October 21, 1931. No. 111. Published weekly by McGraw-Hill Publishing Company, Inc., 330 West 42d Street, New York, N. Y. James H. McGraw, Chairman of the Board; Malcolm Muir, President; James H. McGraw, Jr., Vice-President & Treasurer; C. H. Thompson, Secretary. $5.00 per year. 15c per copy. Entered as second-class matter February 15, 1930, at the Post Office at New York, N. Y., under the act of March 3, 1879. Printed in U. S. A.

What's In This Issue —And Why

Bank Pool

NATIONAL CREDIT CORP., of Delaware, capital $1,200, will administer the great fund for relief of banks that need to raise cash quickly. (page 5)

Tapping the Reserves

FINANCE companies, real estate interests, holders of high grade stocks and bonds, all would like to see their paper made rediscountable with the Federal Reserve—but any such broadening will be for emergency use only. (page 5)

Real Estate

DECLINING appraisals, falling rents, the need of mortgage holders for cash, have brought about the crisis in real estate; real reason, however, is lack of an organized mortgage market. (page 20)

A SURVEY by *The Business Week* of 9 key cities shows increasing foreclosures, with considerable leniency; money is fairly plentiful—but on its own terms. (page 22)

Prices

RETAIL prices have reached low commodity levels; nationally advertised "standard" lines were last to fall; consumer goods generally are back on the 1910 basis. (page 8)

Chain Taxes

INDIANA'S chain store tax law stands, says the Supreme Court. The secret of its legal success is moderation; other measures, equally reasonable, now have a better chance; enforcement of deliberate "chain-killers" is made more difficult. (page 9)

Railroads

FIRST score in the government's effort to lift the reciprocal-buying burden from the roads goes to the Federal Trade Commission, which has ordered Armour officials to "cease and desist." But real relief must come through the broad investigation of the I.C.C. rather than these individual prosecutions. (page 10)

"Let the I.C.C. do it," is the attitude of Congress toward rail relief; a new Transportation Act is not likely before 1933. (page 15)

Automobiles

MOTOR makers are willing to call it a year—a bad year, the worst since 1921; from now on they're interested in making 1932 a good one with bigger bargains to lure a growing replacement potential. (page 12)

Coal

BITUMINOUS operators have high hopes for their coming conference; labor will be represented by its ideas. (page 13)

Shipping

AMERICAN merchant mariners may fight foreign consolidated competition with a merger; one big fleet may sail out of the San Francisco conference. (page 18)

Flaxseed

PROTECTION for American flax farmers encouraged heavy planting. But what's a tariff wall to a grasshopper? Drought and the insects leave us still dependent on the Argentine. Curiously, the price is declining. (page 26)

Washington Reactions

WHY Garner, Democrat, turned attention to the moratorium . . . Why Vice President Curtis may change his mind . . . Why Congressmen have insomnia. (page 31)

Europe

BRITAIN awaits the outcome of the pending elections and probable tariffs. (page 32)

FRANCE calls on America for gold as its own currency goes back in the traditional wool sock. Germany gives Bruening a lot of trouble in his attempt at a rescue. (page 33)

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending October 17, 1931

Bank Relief Pool Organizes, Begins Raising $500-Million Fund

Operations should relieve pressure of distress selling of securities, commodities, real estate

NATIONAL CREDIT CORP., capital $1,200, was organized this week to put into effect the Hoover bank relief plan by raising and operating a $500-million (minimum) pool. As it was organized, various details of its plan of operation were announced.

Loans will be made only to members. All banks are invited to join, though greatest emphasis has been put on getting in the larger banks. Such smaller banks as do not join will still be aided indirectly, however, since the added strength of the pool will enable metropolitan banks to do more for their correspondents. It is reiterated that the primary function is to discount good assets not eligible at the Federal Reserve.

Should Help Markets

The organization should strengthen the securities markets at least for some time, though pressure of foreign liquidation may nullify much of its effect. By lending money on assets that banks otherwise would be forced to sell in case of need, the pool will diminish the volume of domestic distress dumping of stocks and bonds. The banks able to borrow from the pool will not have to force their customers to pay loans—and dump securities to raise the cash.

Commodity markets and real estate will be similarly affected, in so far as the pressure to sell comes from banks. Such buying as comes into the market should tend to raise prices.

This possible price rise, however, will be halted at some point if business does not improve to sustain it. Unless securities, commodities, and real estate are made more desirable by rising business, both banks and individuals will sell at some price that seems attractive to them, almost regardless of pool support.

National Credit Corp. will aid business only indirectly. If entirely successful, it will give business a stable financial structure, without which improvement is almost impossible. But financial stability is not a stimulus; business went downhill for months before the banks faced a crisis. Financial stability will release the brakes, but the car won't move until the engine speeds up.

It Could Inflate

The pool, if entirely successful, may make financing easier and cheaper for business, make banks better able and more willing to lend. But this is not overly important until reviving business begins to demand loans.

The pool offers a method whereby inflation would be possible, though that is not the aim of its organizers. The Federal Reserve banks could support the pool members, enabling them to subscribe larger amounts to the pool. The pool then could lend more freely, and even enter the bond market as a buyer, which could increase the volume of credit. This is the possibility which has led foreign critics to call the pool an inflationary device.

First Week's Results

The plan was only partly successful in restoring domestic confidence during the first week after the Washington statement. Currency withdrawals continued to mount, though at a slower rate. Foreign confidence was not restored, and the "run" on America continued unabated. Combination of the 2 facts forced another 1% rise in the discount rate at New York, which will bring increases in other money rates.

National Credit Corp., incorporated in Delaware, will be the central organization. It was formed by leading New York City bankers named by George L. Harrison, governor of the New York Federal Reserve Bank. Its head is Mortimer Buckner, president of the New York Clearing House. Its directors consist of one leading banker from each Federal Reserve district, apparently chosen by the New York City group. Each director will buy one $100 share of its capital stock, and deposit this share with Governor Harrison. Head offices will be in New York City.

The corporation is authorized to issue $1 billion of bonds to be bought by the banks joining the organization. Each bank is asked to subscribe to these bonds an amount equal to 2% of its deposits, the subscriptions to be paid in as called for by directors. This will raise about $500 millions. Private organizations also will be permitted to subscribe. About 20% is expected to be called in payment initially.

Under the national corporation will be organizations of joining banks in each Federal Reserve district. Banks desiring aid will apply to these regional organizations, which will determine (1) whether the bank really needs aid, and (2) what assets it has on which a loan can be made.

Triple Endorsement

If the investigation proves satisfactory the regional organization will take the note of the applying bank. This note will be secured by the assets designated by the regional organization and by notes of the other banks, members of the organization. These notes and their collateral will be forwarded to the head office in New York, where, if approved, the loan will be made. These collateraled notes will serve as backing for bonds of the national organization.

The bonds thus will have triple backing: (1) assets pledged as collateral; (2) the credit of the borrowing bank; (3) credit of other banks of the district.

The bonds will bear no interest, this to be paid only as earned and declared by the national organization.

Proposal to Broaden Reserve Base Debated

WASHINGTON'S proposal to widen the eligibility provisions of the Federal Reserve Act has started widespread discussion and redoubled the efforts of those who have been pounding at the Federal Reserve gates.

Under the present law U. S. government securities, paper "arising out of actual commercial transactions" maturing in 90 days, and agricultural paper

maturing in 9 months are eligible for rediscount at the Federal Reserve banks. This list includes notes, drafts, acceptances, and bills of exchange meeting the technical regulations prepared by the Federal Reserve Board on the basis of the law. The Reserve banks may also buy or sell cable transfers, gold, and tax anticipation securities of the states and their subdivisions.

To Protect Reserves

The reason for this strict limitation lies in the fact that the Federal Reserve banks hold the reserves of the nation's banks. So important are these that the law intends to protect them by permitting the banks to deal only in the most liquid paper—that which is self-liquidating by the nature of the business transaction from which it originates. Government bonds form an exception, taken to finance the World War.

Naturally, business which creates eligible paper finds financing easier, interest rates lower. To the safety value of this paper is added the assurance that a loan can be had on it any time.

Depression has greatly decreased the volume of eligible commercial paper. Even before the depression business tendency to finance by issuance of securities instead of bank loans which create eligible paper has raised a question. Steady whittling down of the amount of government securities outstanding from $25 billions to $16 billions further cut down the total of all eligible paper.

But still there is an adequate amount in total of such assets. On June 30 member banks of the Federal Reserve system held $7.9 billions according to Federal Reserve figures. The real trouble at present is the distribution of such assets. Large city banks now hold nearly all such paper, and the smaller banks are denuded, unable to gain access to the Reserve banks.

3 Applicants

Three major types of business have consistently sought eligibility for their paper. They will present their demands to Congress this winter with renewed confidence and force.

(1) Instalment selling has long pounded at the portals, holding that its paper arises from actual commercial transactions (*BW—Oct14'31*).

(2) Some real estate men feel that their profession deserves consideration and it now has a Congressional sponsor in Senator Vandenburgh of Michigan.

(3) Admission of high-class corporate securities to discount has long been advocated, though this practice is specifically prohibited in the present act. Proponents point to the Lombard loan system prevalent among European central banks, whereby bank notes collateraled by these high-class corporate securities are eligible to discount for limited periods at a penalty rate.

The banks themselves may ask the privilege of creating eligible paper. Some type of clearing house certificate eligible for discount would relieve the situation.

But business should not count too heavily on the provision of any extensive amount of Reserve credit from the widening of eligibility provisions. Bankers everywhere are loath to make access to their reserves easier. And some of the bigger banks might not welcome the increased financial independence that smaller ones would gain from a loosening of the restrictions.

Congressional watchdogs headed by Senator Glass foresee, and are unwilling to risk, the imperilment of the banking system. They also have no intention of opening the way for financing another boom with Federal Reserve credit. The indications now are that only temporary broadening for emergency purposes will result from current moves.

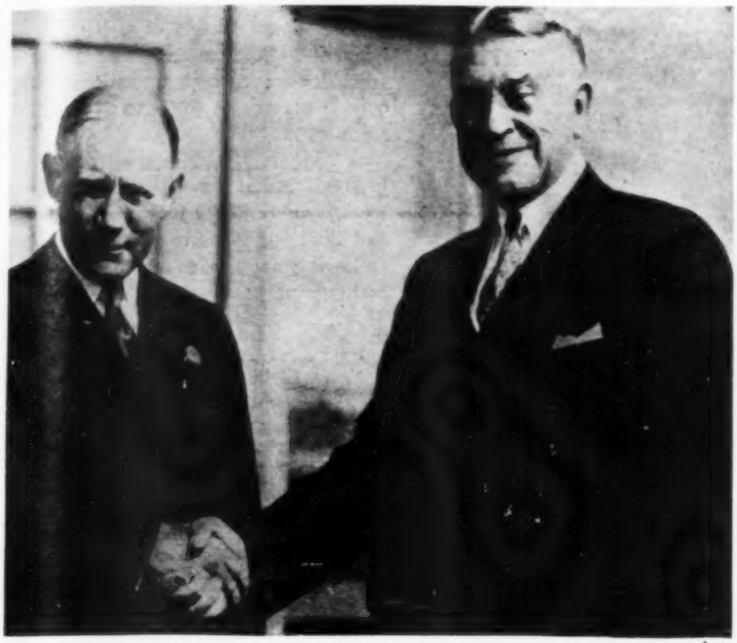
States' Leniency Limits Effect Of Slump in Insurance Assets

Most insurance companies will not show assets at market value in their financial statements at the year end. Following the lead of bank supervisors (*BW—Sep23'31*) state insurance officials in most states will not force the companies to write investments down to the market. They consider present market prices abnormal and unjustified. For the companies to use such prices in their statements would mean impairment of surplus for many, impairment of capital for some, and perhaps technical insolvency for a few.

Instead, market prices of June 30 are to be used. These prices are justified, officials say, in that they approximate the average of prices for the past 5 quarters. The National Convention of Insurance Commissioners suggested this

Wide World

Advance Agents—*France sends Robert Lacour-Gayet (left), economic advisor to the Bank of France, and Charles Farnier, vice-governor, to prepare the way for Laval—and to keep an eye on American financial conditions so vital to France in the present world emergency*



Acme

NEW AND OLD—*Rome C. Stephenson (right) retiring president of the American Bankers Association tells his successor, Harry J. Haas, Philadelphia, the job can't be half as tough this coming year*

solution and it will be followed in most states. Connecticut is an outstanding exception, where Commissioner Dunham emphatically disagrees, and where Dec. 31 market prices will be used in statements of that date.

The step means that financial statements of the companies will not show their true condition. The same is the case with national banks which follow Comptroller Pole's recent ruling on investments, and with state banks in states which follow the Comptroller's policy. The practice was used to some extent in 1907, 1917, and 1921.

Companies Most Affected

Fire, marine, and casualty insurance companies will be most affected, due to their heavier percentage holdings of securities and the trading basis on which they operate. These companies at the first of the year held \$3.1 billions of stocks and bonds. Life insurance companies, holding \$6.2 billions at the same time, will be somewhat less affected, according to insurance men, since they usually hold securities until maturity and amortize price differentials toward par.

Many expect Canadian regulatory officials to follow this American rule as to statements. Since companies there invest heavily in common stocks while American companies are limited largely to preferred stocks and bonds, market depreciation of assets is believed to have hit the Canadian companies even harder.

Postal Savings Swollen By Bank Withdrawals

BANK failures and disturbed confidence have sent postal savings deposits rapidly upward during the past year. End of September estimates place the total at \$457 millions, a growth of 145% in the past 13 months. The September rise alone was \$43 millions. While the growth has been general, it has been steepest in areas where bank failures have been heaviest. Thus postal deposits may be taken as a barometer of confidence in banks.

The postal system is again an important factor in decreasing the amount of funds that otherwise would go into hoarding, and in that way a factor tending to decrease the strain on banks. About 84% of money frightened into the postal system is directly redeposited in banks. The balance goes into government bonds and thus indirectly back to the banks.

Rouses Bankers' Ire

Bankers nevertheless are unfriendly to the system. They feel that it provides a refuge for funds that, without it, would not be withdrawn in the first place. And though the money returns to them, they must give collateral to secure the deposits, thus tying up some of their assets. For that reason, some have limited the amount of such postal deposits they will take.

Public opinion in some areas is demanding a rise in the \$2,500 deposit limit on postal savings deposits and the \$5,000 postal savings bond maximum. The banks will fight this move, would like to see the present limit reduced. To them the postal savings system is that unpleasant spectre, the government in business.

The practice of hoarding through money orders also is being revived, though no data are available as to the extent. Under this device an individual buys a money order payable to himself and keeps it—in effect paying the government to keep the money. This excites banking ire. Money orders are being used in lieu of checks for paying bills in some regions.

Dollar Electric Clocks Widen Sales Opportunities

ELECTRO AUTO-LITE CO. of Toledo, manufacturer of automotive equipment and radio accessories, anxious to employ idle equipment and build a more diversified line, is producing an electrically operated clock, to retail for \$1.

Although requiring only a rather simple mechanism, electric clocks have, until within the last year, retailed at high prices. Established manufacturers of other electrical products, wholesalers and retailers have considered and used them as long-profit items.

But makers of other products have seen in electric clocks a welcome chance for diversification. Retailers have recently found lines available, at prices substantially lower than those prevailing on well-known makes. Chain variety and drug stores have been able to retail electric clocks of good design at prices ranging down to \$2.

Electric Auto-Lite Co. proposes to make 10,000 of its clocks daily.

Industries Want Courts To Rule on "Unfairness"

A MEETING to perfect a bill requiring court hearings on Federal Trade Commission decisions as to what constitutes an unfair trade practice will soon be held by the legislative committee of the Congress of Industries, organization of trade association executives. The bill will probably be drawn so as to compel the commission to bring complaints against industries seeking to enforce rules in codes that have been rejected by the commission.

Purpose is to permit the courts to

Keystone

"ADMISSION 2 PINS"—*Money is scarce in Georgia; the Worth County Fair took it out in trade. Here are children paying their admission with eggs, cotton seed, peanuts, chickens and other farm produce*

interpret anti-trust laws in the light of current business practices and conditions.

Chief question involved is whether a court decision could be obtained when the only charge is that an industry has expressed its intention to enforce a rule rejected by the commission, but before any substantive record of action under the rule has been made. It is not unlikely that the courts might refuse an opinion under such circumstances, thus leaving the problem about where it is now.

Retail Price Drops Begin To Equal Commodity Declines

RETAIL prices on many items of consumer goods have now reached the lowest level since 1910, show the greatest declines on bulk or unbranded merchandise.

Current indices of recognized authority reflecting the broad reductions in average prices fail to show the drastic cuts that have frequently occurred in the open market. Nevertheless they serve to measure the decline.

The wholesale price index of Prof. Irving Fisher, taking the 1926 prices on 200 commodities as 100, sets prices during the week ending Oct. 9 at 68.1, the purchasing power of the dollar at $1.469.

The price index compiled by New York University for the National Wholesale Grocers' Association, which takes the 1921 level as 100, finds prices on identical items for September, 1931, at 75.3.

The National Fertilizer Association's records of 476 commodity prices, taking the 1926-28 average as 100, puts prices at 67.3 at the end of September, and 15.9 points lower than for the same week a year ago, the greatest decline being on grains, textiles, fats and oils. It also shows that there has recently been a 2.5 rise in food price averages.

Wholesale prices actually quoted support these indices, but recent changes indicate that in some groups, at least, further concessions are in prospect. Certain manufacturers of woven undergarments quote some prices 10% to 15% lower; current quotations of an overall maker are 20% to 30% down from 1930.

Measuring the Declines

Retail prices have been checked by *The Business Week* in various localities and different types of stores, show the following average reductions from the 1928-29 peak:

Class	*% Decline*
Food	20 to 30
Men's Clothing	30 to 50
Women's Apparel	30 to 60
Furniture	35 to 70
Shoes	35 to 45
Silverware	35 to 50
Kitchenware	20 to 30
Yard Goods	30 to 60
Paints, Varnishes, Shellac, Oils	20 to 70
Tires and Tubes	30 to 65
Domestic Carpets, Rugs	20 to 50
Oriental Rugs	50 to 80

Interesting is the fact that nationally advertised goods in certain lines, that enjoy wide public acceptance and are frequently quoted as standards of value in their class, have only recently begun to advertise new lower levels to the public, though quiet reductions in wholesale prices have been made.

Hart, Schaffner & Marx, pioneers in nationally advertised men's clothing, have just announced price reductions for the spring of 1932, bringing wholesale prices per suit down $3.37 to $9.89 each, lowering retail prices 10% to 25%. B. Kuppenheimer Co.'s prices for the spring of 1932 are scheduled to go 20% below those of this year.

Shoe Prices Down

Regal Shoe Co., effective Oct. 9, reduced retail prices from $6.60 to $5.85 a pair on all types, styles, and sizes of its shoes. Nisley Shoe Co., operating a 60-store chain, cut prices from $5.00 to $4.00 per pair.

Gotham Silk Hosiery Co., effective Oct. 12, reduced retail prices 30% to 45% on its advertised Gold Stripe line, credits wage reductions with this cut.

John B. Stetson & Co.'s branded line of hats, effective Nov. 15, is offered to dealers at a reduced cost to give them a greater margin, provide the lowest retail prices in 10 years. The company has added a "fighting" line, not bearing its name, to retail for $5.

Northwest Millers Swap Flour for Lumber

THE age of barter is returning.

A flour mill in the Genesee district of Washington state needed a new ele-

vator. It paid Potlatch Forests, Inc., for the lumber with flour to be used in logging camps. Farmers who had received advances from the mill settled their debts by putting up the building. No cash was used in the three-sided deal.

Battery Maker Diversifies Adding Motor Accessory

BURGESS BATTERY CO., manufacturers of dry batteries for radio and general purposes, continuing its policy of diversification (*BW—Oct7'31*), offers the Burgess Ignition Booster for automobiles to increase sales volume and build new markets for dry batteries whose sales have declined since radio sets were connected direct to lighting circuits.

The new device is designed to facilitate quick starting in cold weather, to bridge the starting drain made on a car's regular storage battery, and to provide an independent source of high voltage current for ignition during the starting process. When the starter is engaged it actuates a relay unit, throws a dry battery into service, delivers double the voltage to spark plugs.

Closing of Indiana Case Opens Way to Moderate Chain Taxes

Others not so moderate are headed for the courts and more are threatened

REFUSAL of the Supreme Court of the United States to grant a rehearing of its favorable decision of last May (*BW—May27'31*) removes all further obstacles to the enforcement of the Indiana State chain tax law. It may prove to be the signal for the opening of the legislative flood-gates to similar chain tax measures in other states. This possibility is strengthened by the fact that neutral opinion inclines to the belief that the Indiana law embodies all the political advantages of a measure aimed strictly at the chain store, yet, providing only moderate rates of taxation, neither cramps chain expansion nor disturbs the competitive situation by necessitating revision of chain store retail prices.

The possibility that other states can successfully enforce chain taxes that are materially higher than those of Indiana is lessened. The decision now confirmed implies that such taxes should not be unreasonable and arbitrary.

More Litigation Coming

While most chain tax bills failed of passage in the 34 state legislatures that debated them in 1931, some are now being enforced which include features clearly inviting further litigation.

Florida has just started to collect a tax ranging to $50 a store on all over 20 stores in a chain plus $3 a year on each $1,000 of merchandise stock in the stores and warehouses. Louis K. Liggett & Co. with 22 drug stores and Winn & Lovett Grocery Co. with 58 stores in the state hold the act discriminatory and are suing for an injunction. Florida's provision of lower rates for chains with all units within one county is also under attack.

Wisconsin passed a law providing for chain taxes up to $1,000 on all units over 20. Chains expect to start litigation if the governor signs it.

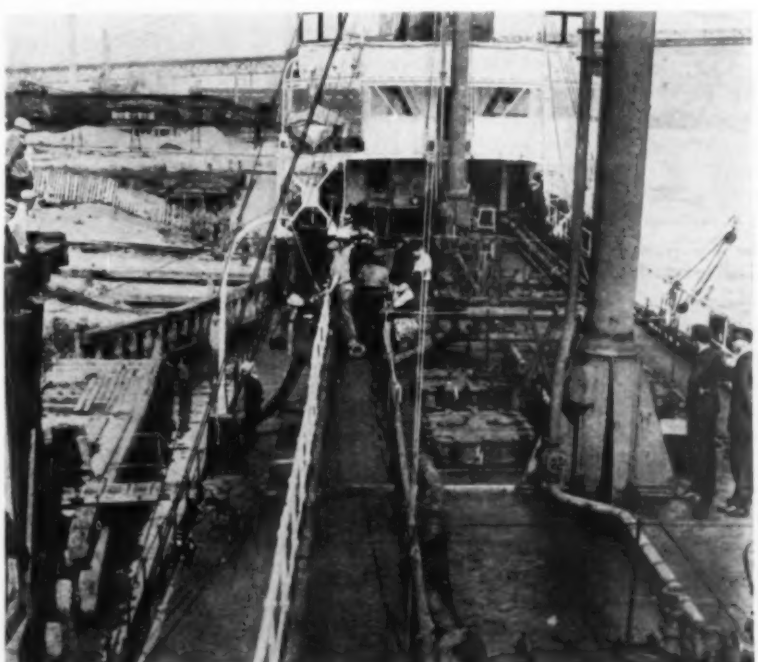
In New Jersey, where chain stores obtain an exceptionally high percentage of total volume, a special session of the legislature is considering a bill providing taxes up to $1,000 on all units above 20.

The new Alabama law taxes chains $75 on all units over 20, but exempts gasoline stations and, for that reason, is to be attacked on constitutional grounds.

On the Fighting Line

Significant is the fact that the big national chains have sought judicial relief only when taxes appeared to be unreasonable or arbitrary. The Indiana law providing a maximum of only $25 per unit was fought single-handedly by Lafayette A. Jackson, operating a chain of stores within the state. In Kentucky, where a sales tax is involved, opposition to the new levy was led by 2 local companies but Kroger Grocery & Baking Co. started separate action (*BW—Feb.4'31*). In North Carolina, where a tax of $50 per store is involved, The Great Atlantic & Pacific Tea Co. has a case before the Supreme Court. The Florida fight is led by 2 national chains.

Some chain executives acknowledge that a state tax of some kind is inevitable, would rather let the "reasonable" Indiana schedule stand than risk getting something worse. Others are



Wide World

MUNITIONS FOR A GAS WAR—*Rumors of cheap Soviet gasoline coming into Detroit were dispelled by the arrival of the first tanker. The gas is not from Russia, but from Rumania where crude oil sells for $2.50 a ton ($15 in 1924), gasoline at 3.5¢ a gallon—cheaper even than Russia*

violently opposed to any type of tax not imposed on independents and chains alike.

Meanwhile, chains may find the drift toward state chain taxes only the beginning of their trouble. Cities in which business conditions make chain stores valuable material for political bargaining, some that are trying to boost revenues without imposing further burdens on real estate, are considering special chain store ordinances.

Portland, Ore., has already passed an ordinance effective Jan. 1, 1932, licensing chain stores at fees ranging from $6 for individual stores to $50 each for 20 or more under one management.

Chain executives are organizing to offset local antagonism by closer attention to the selection of personnel. Some have made studies showing the civic status of their managers, capitalized the local interest of their personnel (*BW—Jun10'31 and Oct14'31*).

Government Wins First Case Against Reciprocal Buying

THE Federal Trade Commission ruled this week that compelling railroads to buy draft gears from the Waugh Equipment Co. under threat or promise of losing or gaining the traffic of Armour & Co. is unlawful.

The equipment company and Armour traffic officials who hold presentation stock in the company have been ordered by the commission to drop the club they have been holding over the railroads—"to cease and desist . . . use of traffic of Armour & Co. . . . in the solicitation of draft gear or other railway equipment business . . . by promises and assurances . . . of increased volume of freight traffic by Armour . . . by threats of withdrawal of traffic."

Armour traffic is eagerly and insistently sought and the commission's findings disclose that by resorting to the methods now forbidden the Waugh Co. made substantial sales of draft gears to the Chicago & Northwestern, Missouri Pacific, Wabash, Frisco, M-K-T, Rock Island, Burlington, Milwaukee, Boston & Maine, New Haven, Lehigh Valley, New York Central, Erie, Lackawanna, Chesapeake & Ohio and Pere Marquette. Waugh's proportion of gear sales for new freight cars increased from 1% in 1924 to 35% in 1930.

First Attempt at Curb

The Waugh case is the government's first attempt to curb the practice of reciprocal buying that honeycombs the purchase of railway supplies. A similar complaint against the Mechanical Manufacturing Co., a concern owned by interests connected with Swift & Co., is pending. This company has discontinued manufacture of draft gears but has licensed the Waugh Co., in return for a block of Waugh stock issued to George A. Hood, trustee for the Swift estate, to manufacture a centering device owned by it.

Litigation has covered a period of nearly 2 years and demonstrates that, if the railroads desire relief from the squeeze of reciprocal buying that controls their traffic, it must come from a broad investigation that the Interstate Commerce Commission now is conducting, not through prosecution by the Federal Trade Commission of offending shippers as individuals.

New "Cold Light" Lamp Works on 110 Volts

"COLD light," which threatens to displace the incandescent filament in the lighting fixtures of the future, moves another step forward with the advent of the cold cathode, 110-volt, gaseous lamp invented by Dr. H. J. Spanner, Edmund Germer, and V. W. Doring of England and Germany.

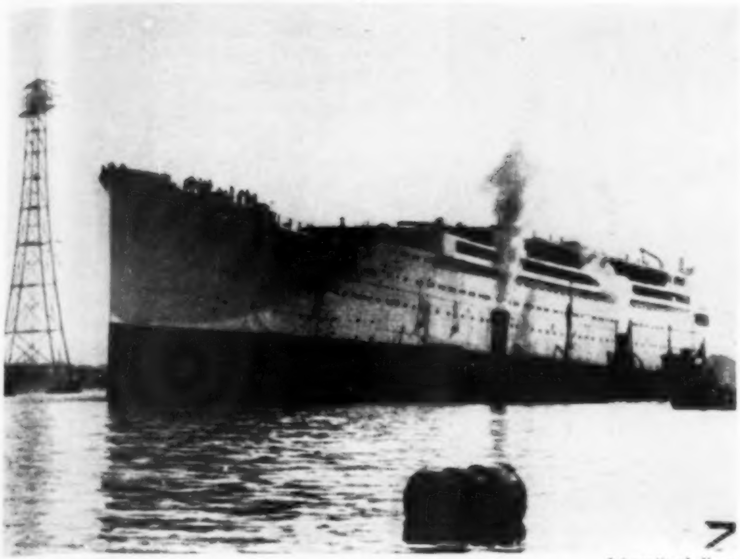
The new lamp may be used in any 110-volt light socket, direct or alternating current; is described as combining the advantages of the mercury vapor type and the neon tube. It is self-contained, needs no transformers or auxiliary equipment. When turned on, it lights almost immediately (mercury-vapor and neon lamps lag). Unlike the other gaseous lamps, its form is not restricted.

See No Immediate Shift

Gaseous lamps for general use are still in the process of development. While the industry sees no immediate shift from incandescents, as indicated by the report of the Illuminating Committee of the National Electric Lighting Association, individual companies are very much aware of their possibilities. One is considering the purchase of the

International News

SOUP IN THE SLOT—*This Los Angeles version of the automatic merchandiser, popular in apartment houses, uses a sliding shutter. Drop a coin, turn a knob, and the shutter exposes another shelf of goods*



International News

MATSON LINE'S NEWEST—*The "Monterey" is launched at Fore River, Mass. She goes into the passenger trade between California and the Orient*

Spanner-Germer-Doring lamp; all are carrying on extensive research at the present time.

Great advantage of "cold light" is its economy of current consumption; even present-day lamps are 3 to 5 times as efficient as incandescents and have none of the disadvantages of the hot filament type. Possibilities are great (*BW—Dec31'31*); early this year (*BW—Feb 11'31*) the neon tube was used in a practical factory lighting installation.

Keying Rents to Sales Brings Tenants to Empty Stores

ANNOUNCEMENT that Sears, Roebuck & Co.'s 20-year lease of the former Siegel Cooper Store building, State and Van Buren Streets, Chicago (*BW—Sep 9'31*), provides for rental on a percentage-of-sales basis, focuses attention upon a depression-born partnership relation between landlord and tenant that promises to become permanent practice.

Rent constitutes the major expense item of retailers. During the last 2 years continued shrinkage in dollar volume, lower selling prices, reduced mark-ups, have combined to wreck many retailers who were committed to boom-time rents.

A Depression Product

Landlords have found themselves with many empty stores, often fully equipped with fixtures, producing no income to meet the inexorable demands for interest payments and taxes. In large cities new store buildings, under way when Wall Street crashed and finished after the demand for added retail locations ceased, have had to resort to heroic measures to attract tenants. The "percentage lease" is the result.

In the Sears case ownership of the store by an estate, the desire to enhance the value of other holdings in the district, plus the unquestionable stability of the prospective tenant, resulted in terms exceptionally advantageous to the mail order house and contrary to the general trend.

Sears will pay only 1½% of its net sales as rent on the 8-floor and basement building, can sublet at not less than 80¢ per square foot—of which one-third goes to the landlord—faces no minimum rental requirement. The Leiter estate also proposes to spend several hundred thousand dollars to put the building in condition for its new tenant.

The plan of percentage-leasing has gained popularity rapidly during the last 9 months. Adapted from the widely prevailing department-leasing practice of department stores, it has been applied to provide throughout almost complete protection for the landlord.

Percentage rates are determined only after a thorough study of an applicant's potential sales volume in the location, average annual turnover in his line, prevailing rate of mark-up for maximum sales. On leases now operative with apparent satisfaction to landlord and tenant, percentages range from 10% to 50% of sales.

Guides to Percentage

Fast-selling merchandise, showing a low mark-up, pays an average rate. The jewelry store with a low turnover but large unit-sale and extraordinarily high mark-up pays the maximum rate, as does the refreshment stand with its fast-selling, high-profit but low-sales-unit line. The shoe store with a low turnover and comparatively low mark-up fares best.

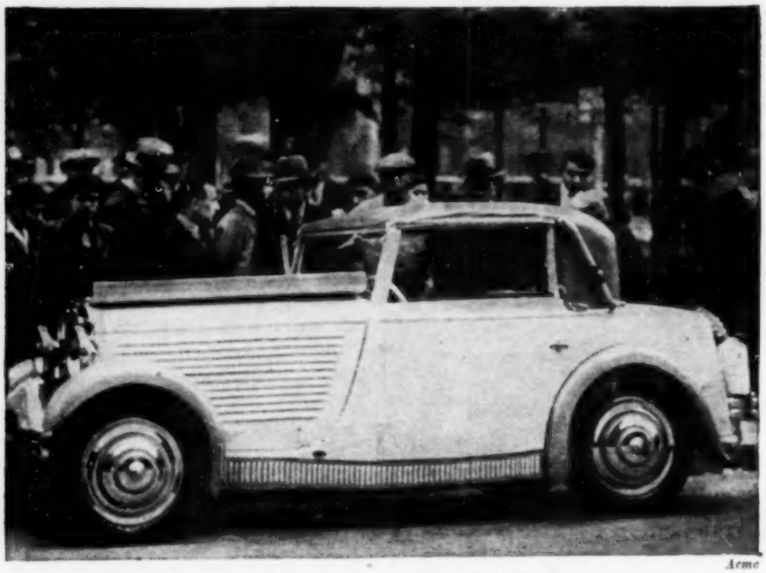
The landlord usually requires in the lease a guarantee of minimum returns which, if not earned on sales, must be met by cash payment. Unless the tenant is of exceptionally high financial standing, a national or local chain with known record of performance, he may install his own cashier at the tenant's expense; keep a check on rate of mark-up to be certain that sales volume is not being stifled through excessive profit ratio; exact an annual audit by a certified public accountant.

Like New System

Owners of buildings who have been forced by dire necessity to substitute the flexible percentage plan for the old-time fixed rate now state that they would not want to go back to the former basis. They claim that only the best type of merchant tenant will agree to the percentage rent; that the cooperation between landlord and tenant, imperative under a percentage arrangement, makes for greater success; that shifting is reduced, and landlords get a better opportunity to cash in on the improving value of their locations.

Chain stores are making many new leases on the percentage basis, and have succeeded in changing many existing fixed-rate leases to the percentage plan.

Owners of real estate, brokers and renting agents find that the trend toward percentage leasing forces upon them an intensive study of retail merchandising. Since the percentage lease is substantially a partnership arrangement, it can work successfully only where both parties have a more than casual knowledge of the problems involved in the tenant's line of business. Where landlords do not know the mechanics of merchandising, possible rates of turnover, mark-up, sales, the percentages agreed upon may readily result in substantial losses.



Acme

Lower Bodies—*The new Peugeot exemplifies the trend in foreign motor car design. The body is low, compact, eliminates the running board*

After Worst Year Since 1921, The "Best Car Values in History"

Then, say motor industry's strategists, the dam of buying resistance must give way

Faced with a probable 2.6-million car year—lowest since 1921—the automotive industry has virtually abandoned hope for the remainder of 1931, is concentrating its efforts on 1932 plans. The 9 months' output this year was slightly less than 2.2 million cars and trucks. Monthly production has declined since April; September output of 143,000 was the lowest total for the month on record and, with but 6 exceptions, is the lowest total for any month since 1921.

1931 Written Off

Prospects for the remainder of the year are unencouraging. With new model announcements postponed until the first of the year and the industry striving to keep employment up during January and February, there is likely to be less new model production for dealer stocks than formerly, particularly before show time early in January. Meanwhile retail sales will continue to lag. Production on current models will decline proportionately and anticipated shutdowns by Ford, Chevrolet, and most other makers for inventory and change-overs will probably hold fourth-quarter output to around 500,000.

Sales for 8 months, 1931, totalled 1.5 millions, 28% below same period of 1930. Only 5 makes of cars sold in greater quantities this year than last—one of them, Plymouth, forging ahead only with August sales. Auburn is about 150% ahead of 1930; Austin has doubled its 1930 sales; Cadillac and Pontiac made small gains. Introduction of the new Plymouth brought sales from 18% below 1930 at the end of July to 10% above at the end of August.

Looking ahead to 1932, the industry is optimistic. Engineering departments have been working overtime developing new features to lure customers. There are many signs that new models to be presented next year will mark the greatest single advance in mechanical design, comfort, and beauty that the industry has ever witnessed. Accompanying this technical development there is likely to be a downward readjustment of prices on many lines. The motor industry knows that the public will expect such a move in face of declining prices elsewhere, will be inclined to overlook the fact that, even at current prices, the new models will offer much greater values.

With what they believe to be the greatest dollar value ever offered, the industry is convinced that even a slight return of confidence in the future or a slight increase in business activity will release an enormous amount of buying power to take advantage of automotive bargains. Strengthening this belief is the fact that sales this year have been considerably less than required to take care of the normal replacement market, while gasoline sales show that cars are being used as much as ever, indicate that replacement cannot be postponed much longer. The industry expects its new offerings to open the dam.

Trends Set for 1932

Little definite information is yet available about the new designs, but general trends are apparent. Elimination of vibration is getting the attention of Mr. Ford's engineers and of all small car makers. Transmission changes will include adoption of the Bendix clutch control device by several makers and it is likely that automatic transmissions and various other methods to make gear shifting easy and silent will be presented. Longer wheelbases, better springing, and much attention to streamlining are indicated developments.

The full streamlined car with engine at rear is still in the experimental stage although a body company is reported to be building one to test out some of its theories of body design. Free-wheeling, in some form or other, is sure to be found on many new models while various other devices, such as the Bendix Startix, now available on Packard, Hudson, and Essex, are likely to be adopted by other makers.

Low Prices Preferred

One significant point is the apparent belief of the industry that, for several years at least, the low-priced car market will offer the best sales possibilities, that medium and high-priced cars will suffer from the after-effects of the depression until prosperity definitely returns in force. Because of this it is reliably reported that several makers—3 have been named—will attempt to pry their way into that profitable market now divided among Ford, Chevrolet, and Plymouth. No one envies them their jobs, most admire their courage.

Hot Coining May Be Boon to Ferrous Metals

Hot coining of ferrous metals now promises to effect far-reaching changes in the art of metal-working. Giant presses capable of exerting tremendous pressures with almost complete rigidity

are finishing highly polished metal parts from blanks in a single operation, maintaining tolerances of .002 or .003 inches regularly, making accuracy within ten-thousandths practicable at a somewhat higher die maintenance cost.

Metal Flows Like Water

For symmetrical parts, blanks of metal heated to just below the scaling point are set in the press. The tremendous pressure causes the metal to flow much like water into all the apertures in the die. Since the metal is stressed far beyond its elastic limit there is no springing back when pieces are removed from the die.

For irregular shapes a preliminary rough forging operation is needed to obtain proper distribution of the metal. One of the largest of the new presses is being used experimentally by a large automobile maker to press front axles complete after a prior forging.

Since no impact forces requiring tough metals are used in the press operation, dies are made of much harder materials which last much longer between repairs than those employed in forging dies.

The development is still new. Its originator, National Machinery Co. of Tiffin, O., admits lack of complete information about the process but, with the concerns that have taken presses experimentally, is confident that it has tremendous possibilities in labor-saving and the elimination of waste of metal in forging and machinery operations.

The Soft Coal Industry Calls Its Own Stabilization Conference

Operators will meet without labor but labor's "plan" will be one of many under discussion

"Plans" offered as depression prescriptions for the bituminous coal industry in particular have been almost as numerous as those suggested for the country in general. Some critics have found the industry apathetic, not only opposed to outside help but disinclined to do anything for itself. Now they are not so sure. The industry has announced that it will discuss definite stabilization proposals at a conference to be held in New York, Oct. 21.

Instigated by operators of West Virginia after their meeting with Governor Conley, sponsored by the National Coal Association, this conference will bring together association directors—leading operators—of Virginia, Kentucky, Tennessee, West Virginia, Pennsylvania, Maryland, Ohio, Illinois, and Indiana. Though the industry has many conflicting elements, embraces too large a group to make harmony easy, it has high hopes of this meeting.

7-Point Program

Best-known, most favorably received plan to come before the operators is the 7-point program offered by *Coal Age* (*BW—Sep9'31*) which recommends production control, sound merchandising, stabilized industrial relations, more mechanization, coordinated research, more consolidations, more safety. Such adverse comment as it has met centers on the practicability of applying its admittedly sound principles to current problems. *Coal Age* emphasizes editorially that its program is one of self-help; that, while group effort will be required to put it into actual practice, it becomes first the job of individuals to line up their own groups for action. The individual effort initiative necessary to start the plan operating may be applied at the conference.

Wage Plan Up

Other proposals to come before the meeting will include that of the Chamber of Commerce embracing regulation and control of coal, oil, and lumber; that of Gerard Swope for the stabilization of all American industries. (*BW—Sep23'31*). Conferees will discuss the suggestion of C. F. Hosford, Jr., president of Butler Consolidated Coal Co., that a minimum wage scale be established in each producing district, that working time on all coal operations be limited to 5 days a week, that measures be adopted to prohibit the sale of coal below production cost. This would require organization of operators in each district into associations similar to those proposed by Mr. Swope.

There are moves to break the industry's problem into smaller units for easier solution. Governor Pinchot of Pennsylvania, backed by a number of operators, wants to form a new competitive field including eastern Ohio, Pennsylvania, West Virginia and eastern Kentucky. It is proposed that the heads of these 4 states appoint representatives to a small committee which will draw

Wide World

War Zone—*Harlan, Ky., center of the coal war. Ill-feeling between desperate miners and profitless operators grows steadily; both sides go armed; violence rules the seemingly peaceful countryside*

up recommendations based upon the particular problems of this field.

At a recent meeting in Pittsburgh the "Wheeling plan" for formation of a new competitive field to include eastern Ohio, western Pennsylvania and certain high-volatile coal districts in West Virginia was the chief topic of discussion. Other recommendations included amendment of the anti-trust laws, adoption of a reasonable legislative program, and selection of a governing board of strong men of the industry to control its rejuvenation.

Gov. Flem D. Sampson of Kentucky has been trying to bring about a conference of governors of 9 coal producing states east of the Mississippi to develop "a plan of action which will be in the interest of the consumer, the owners of the coal mines, and the laboring man." Seven governors have signified their willingness to attend but no date or place has yet been set. Last week a group of Kentucky operators appointed a committee to decide upon suggestions for Governor Sampson's guidance if and when the conference is held.

Labor's Proposal

Latest recommendation—and one to which the operators' conference will give serious attention—is that of organized labor that coal be declared a public utility and placed under the control of a government body similar to the Interstate Commerce Commission. The United Mine Workers of America is actively behind this proposal and is making a strong effort to obtain the support of all the other 105 national and international unions affiliated with the American Federation of Labor. An active campaign will be launched when Congress convenes.

Meanwhile, another attempt will be made to have President Hoover get operators into a conference with miners. The union still is inclined to blame failure of the former attempt upon the President's refusal to make a personal issue of the call, thinks operators felt no particular urge to accept an invitation signed by the Secretaries of Labor and of Commerce.

Congress Sets Signals Against Transportation Act Until 1933

Railroads are looking to outside sources for any further financial relief this winter

WHATEVER is done this winter by way of financial relief for the railroads must be done outside of Congress. Comprehensive transportation legislation appears to be two years off.

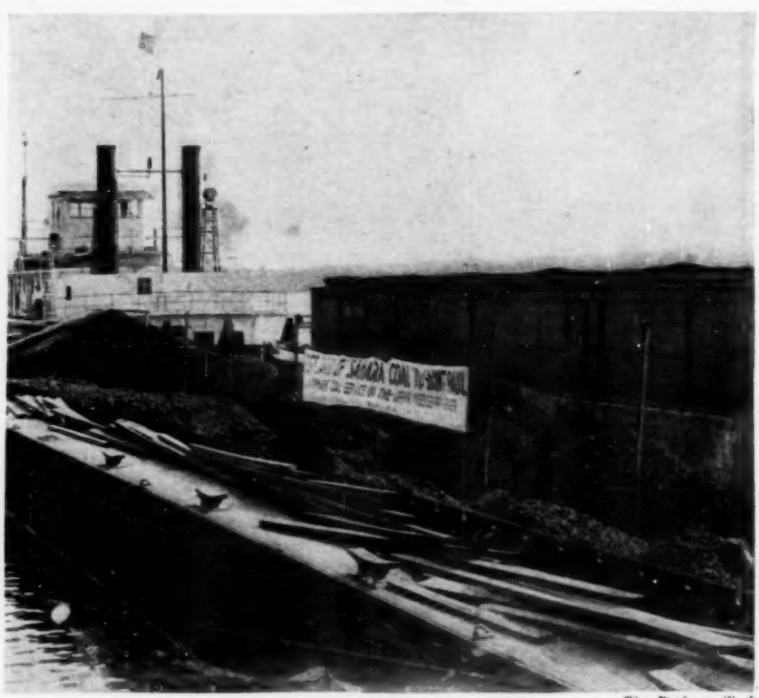
The Administration undoubtedly would like to go before the country in 1932 with a brand-new railroad law to its credit. Chairman Parker, of the House Interstate Commerce Committee, has promised important legislation in the December session but Congress, taking for granted that the I.C.C. has decided on what the railroads actually need, will not be prone to consider any fundamental legislation when other sick industries are clamoring for relief and idle labor is hungry.

Progressive control of the next Congress also will tend to prevent fruition of a new legislative policy on transportation. To attempt such a program would involve concessions that may be avoided by waiting until after the elections in November, 1932. Something may be accomplished in the following lame-duck session before expiration of the 72nd Congress Mar. 4, 1933, but it is more probable that the new Transportation Act will be brought into being by the 73rd Congress which convenes in December, 1933. Until then, the 1922 Act, with all its defects, is likely to remain the law.

All Kinds of Transportation

It is a practical certainty that when it comes, new legislation will embrace motor, water, air, and pipeline transportation. Shortly before adjournment of Congress last spring, the railroads urged that the I.C.C. extend its bus and truck investigation to include pipe, water and air lines, to determine whether these lusty competitors should be regulated, and draft legislation. Congress failed to authorize the inquiry primarily because it is something that the railroads want. Fearful of the heavy hand of federal regulation, the railroads' competitors added their opposition. Senator Fess and Representative Parker, staunch friends of the railroads, finally decided against bringing up the proposal as Senator LaFollette threatened to turn the investigation back on the railroads.

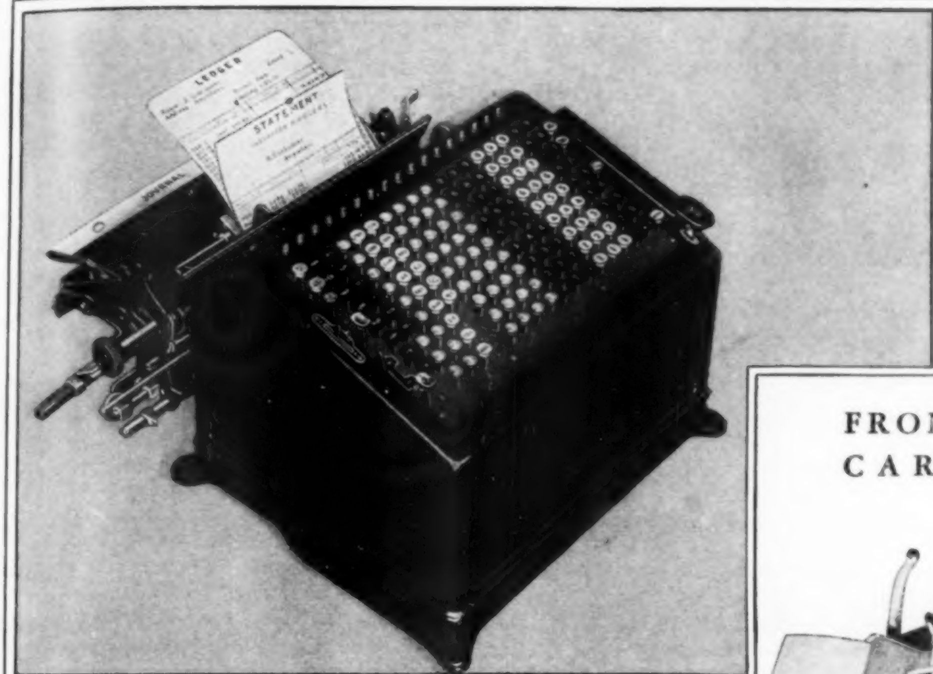
Although the grist will be small, com-



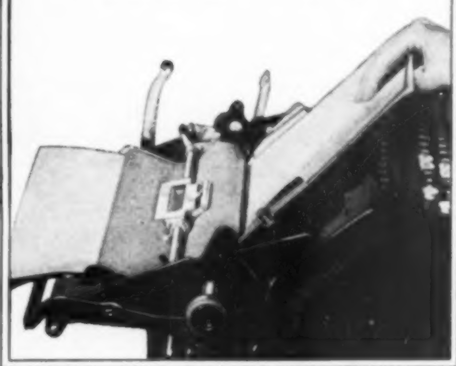
The Business Week

COAL FOR ST. PAUL—*After many years, coal barges are again going up the Mississippi to St. Paul. Here's the first barge from East St. Louis unloading at the city terminal of the Inland Waterways Line*

BURROUGHS
NEW BOOKKEEPING MACHINE



FRONT FEED
CARRIAGE



FOR GREATER SPEED AND EASE IN POSTING

This new development combines the speed of cylinder platen posting with the ease and accuracy of flat, front-feed insertion and alignment. The time required for inserting, aligning and removing forms is reduced to a minimum. Operator fatigue is greatly lessened.

Besides posting two or more records in combination, on such applications as accounts receivable, accounts payable, payroll, general ledger, distribution, stock records and so on, the machine also provides a full-width proof journal containing a complete transcript of all the postings.

Phone the local Burroughs office for a demonstration, or write for special descriptive folder.

The operator, seated at the machine, uses only one hand to insert, align and remove forms. There is no necessity for reaching to turn forms around the platen. The journal, remaining in the machine, automatically spaces up after each posting.

Burroughs

BURROUGHS ADDING MACHINE COMPANY, 6230 SECOND BLVD., DETROIT, MICH.

BACKED BY WORLDWIDE BURROUGHS SERVICE

Acme

THE PARIS SHOW—*Attention was concentrated on light, economical cars, although larger models were represented. Here are 2 American exhibitors*

mittee mills in both Senate and House will have plenty of railroad legislation to work on. Pending proposals include the Parker-Fess Bill to facilitate railroad consolidation, thus arresting the development of holding companies, and the Howell Bill which would substitute for valuation an investment rate base, thus cutting short the fruitless litigation of a decade on the weight to be given to various elements of value. This bill also would eliminate recapture of one-half of railroad earnings in excess of 6%, leaving regulation of the profits of the rail carriers to competing forms of transportation. The latter measure is endorsed by shippers on the theory that it would produce rates high enough to preserve the credit of the railroads. But carriers claim that the new rate base would be lower even than the commission's judgment of the valuation of their properties. Repeal of the rate-making section of the Transportation Act is inevitable, but the railroads have confined their recommendations to date to an amendment for calculating excess earnings on a 5-year average. Repeal of the railroads' right to a 5¾% return is advocated by the American Farm Bureau Fereration.

Holding Company Curbs

Congress will also have before it the recommendation of Walter M. W. Splawn, counsel for the House Committee on Interstate Commerce, for extending his investigation of railroad holding companies to include all holding companies engaged in interstate commerce (*BW—Mar 4'31*). To curb the acquisitiveness of railroad holding companies in the meantime a bill has been introduced to bring within the jurisdiction of the I.C.C. the acquisition of control over any railroad, whether by holding company or otherwise, resulting in affiliation with another road.

Opposed to railroad consolidation in principle, Senator Couzens will not accept any half-way measure that would prevent only those combinations not sanctioned by the I.C.C. The chairman of the Senate Interstate Commerce Committee would restore application of the anti-trust laws to railroad consolidation in lieu of the discretion placed in the commission by the Transportation Act of 1920.

To Coordinate Transport

During the winter session Congress will receive the recommendations of the I.C.C. for legislation to coordinate rail and motor traffic facilities and operations. It is expected that this will go at least part way towards placing the railroads on an equal footing with their competitors, by permitting them to engage directly in bus and truck operations without acting through a subsidiary around the corner. Railroad men claim greater economy in both rail and truck operation by joint use.

Rail Consolidations Are Forbidden to Interlock

No super-system community of interest among the rail combinations that would be created by consolidation will be tolerated by the Interstate Commerce Commission. This was plainly indicated in its refusal last week to permit Frank C. Rand of St. Louis, now director of the Big Four, to sit on the Board of the Frisco.

Independence in fact, as well as in name, was laid down by the I.C.C. as one of the prerequisites to consolidation 2 years ago. Now it adds that "actual independence will not be subserved by permitting the same persons to serve upon the board of directors of 2 major carriers, each of which is an important member of a different independent system."

The rule will apply even where 2 systems in question serve different territories to preserve complete neutrality on interchange traffic, said the commission. Its application last week forestalls any possibility that Rand's double interest might result in feeding Frisco traffic to the Big Four at St. Louis, to the prejudice of other connections.

The Van Sweringen brothers deftly evaded this issue in acquiring control of the Missouri Pacific in May, 1930. O. P. Van Sweringen resigned from the Chesapeake & Ohio board when he was elected to serve on the M.P.

Northwest Road Battles For Livestock Business

OFFICIALS of the Chicago, St. Paul, Minneapolis & Omaha Railway have set out to convince the farmers of Minnesota, Iowa, Nebraska and South Dakota that railroad livestock service offers decided advantages over trucking.

Headed by A. M. Fenton, vice-president in charge of traffic, a flying squadron of public speakers has been organized. Addresses have been made at 40 meetings of farmers in Nebraska, and 45 more are scheduled in Minnesota.

The speakers try to convince the shippers by charts and figures gathered from neutral sources that shipping stock by truck is more expensive because of higher yardage and commission charges, greater shrinkage and damages by bruising. They also present the argument that truck shipments sent direct to individual packers instead of to a public market tend to weaken the competitive buying system at the big markets.

Shipping Board Plans a Combine To Match Europe's Fleet Power

Postpones Dollar-Dawson-Chapman Contract To Bring I.M.M. into 187-Ship Merger

THE Shipping Board on Tuesday extended for 10 days (from Oct. 15) the time limit for acceptance by the Dollar–Dawson–Chapman group of its terms for the transfer of the U. S. Lines. By so doing the government retires into the background to hope for a blessed event of a different nature.

Through the cigar smoke of a San Francisco conference room the Dollar group, which has long been fighting for the line, sought grounds for a merger with its opponent, the International Mercantile Marine–Roosevelt interests. Such a merger would accomplish several things:

Refute Partiality Charge

It would remove the charge of partiality that has been brought against the Shipping Board as a result of its evident determination to sell the U. S. Lines to Dollar and his allies.

It would remove the possibility of suit by the disappointed bidder or by any dissatisfied factions of U. S. Lines stockholders;

It would substitute the economy of single organizations for competitors in services across the Atlantic, and synchronization of services through the Panama Canal from the Pacific Coast and the Orient;

It would enable the lines to consolidate freight and passenger offices all over the world, a substantial saving to stockholders.

The merger would combine companies operating 187 ships with a gross tonnage of nearly $1\frac{1}{2}$ million. Competing nations already have consolidated lines to eliminate costly rivalry. The North German Lloyd and the Hamburg American joined in a 50-year working agreement which pools 365 ships of 1,900,000 gross tons. The Royal Mail and the P.&O. (British) have gathered in smaller companies until each has a fleet of over 2 million gross tons. Most recent is the combining under one head of the 2 great Italian services—Lloyd Orientale (Near and Far East), Lloyd Littorio (transatlantic) (*BW—Oct14'31*).

A merger by the American groups would constitute the largest and most powerful shipping organization in our history. Lines owned, operated or associated with the Roosevelt–I. M. M. group comprise 75 ships (35 of American registry), 578,700 gross tons. The Dollar lines operate 70 ships; gross tonnage 466,000.

The freighters of the Kenneth D. Dawson interests total 30 ships, 172,700 gross tons. The U. S. Lines' 12 North Atlantic liners, including the *Leviathan*, total 188,300 gross tons. (Two 30,000-tonners are under construction.) Total American tonnage is 14 millions.

White Star Business

P. A. S. Franklin, head of the Roosevelt–I. M. M. group, was not among those present at the San Francisco conference. He was in Europe—presumably on business of a more pressing nature. Still owing his company is $\$17\frac{1}{2}$ millions for the sale of the White Star line to the collapsed Royal Mail group (purchase price $35 millions). There is talk of betrothing the weak White Star to the robust Cunard. Certainly Mr. Franklin would prefer the $\$17\frac{1}{2}$ millions to taking back the White Star. Since Congress granted painless loans for ship construction and generous subsidies for operating, Mr. Franklin has shown an increasing interest in American flag ships.

International News

MERGER MAKERS?—*American shipping men meet to discuss the possibilities of one big fleet. Left to right, standing, are Cletus Keating (Roosevelt–I.M.M.); Kenneth Dawson, president of State Steamship Co. of Seattle (he was in on the Dollar-Chapman deal that fell through); R. Stanley Dollar (the Dollar Line); seated, are Kermit Roosevelt, Herbert Fleishhacker and John Franklin (Roosevelt)*

Cunard, White Star Lines Abandon Second Class

DEPRESSION and competition from newer and faster ships have stamped another change on long-fixed shipping policies. Cunard and White Star have abandoned second class. The change over to tourist third came on the lines' big boats last.

The urge to "provide better quarters for transatlantic travelers of moderate means" has now brought tourist third to a host of Atlantic liners, and to a few on the Pacific. A similar trend is responsible for the line of new cabin-class ships now becoming popular on the Atlantic—including the new *Lafayette* (French Line) and *Britannic* (White Star), soon to be supplemented by the *Champlain* and the *Georgic*.

NO MORE PARADES

Advertising has gone back to work!

AN OPEN LETTER TO THE CLEAR-THINKING BUSINESS MEN OF AMERICA—*TENTH OF A SERIES*

TIME WAS when almost any magazine you picked up had page after page of lazy, band-music advertising, alongside those shrewd and newsy business-getters that showed some concerns anxious to make their percentage, even in high and handsome times.

But this year, advertising has gone back to work! Run through a recent file of *The Literary Digest* and you find any number of straight, hard-selling talks on important subjects—on schools and communities, on motor cars and accessories, on home and office equipment, on insurance and investments, on soaps and coffees and razor blades.

It is evident that today's advertising is expected to talk sense, to deal with wanted services offered at fair prices, to appear in the right place at the right time.

Playing the game by these rules, *The Digest* has gone straight ahead and up. Records for the first six months of 1931 show a 110,000 weekly surplus over the circulation figure of 1,400,000 guaranteed to advertisers. This gives us the largest subscription revenue (gross and net) of all magazines. It brings us the largest section of the upper middle classes ever grouped by any magazine.

A sound and successful and active crowd—interested in essentials (shown by *The Digest's* editorial content), responsive to sensible advertising (that's why they subscribed), ready to *buy now*.

With faith in this great middle market and with the belief that another era of expansion is close at hand, *The Literary Digest* earnestly urges you to continue the present rule of reason . . . to advertise with care and skill and vigor when you have something that advertising should help . . . to hold to the motto "*No more parades*" . . . to keep your promotion producing.

The Digest ASKS ONLY ITS DUE. Get the facts—all the facts. See the truth. Plan your program of profit. The real tests and the real rewards of sound business thinking lie just ahead!

DRAW YOUR OWN CONCLUSIONS

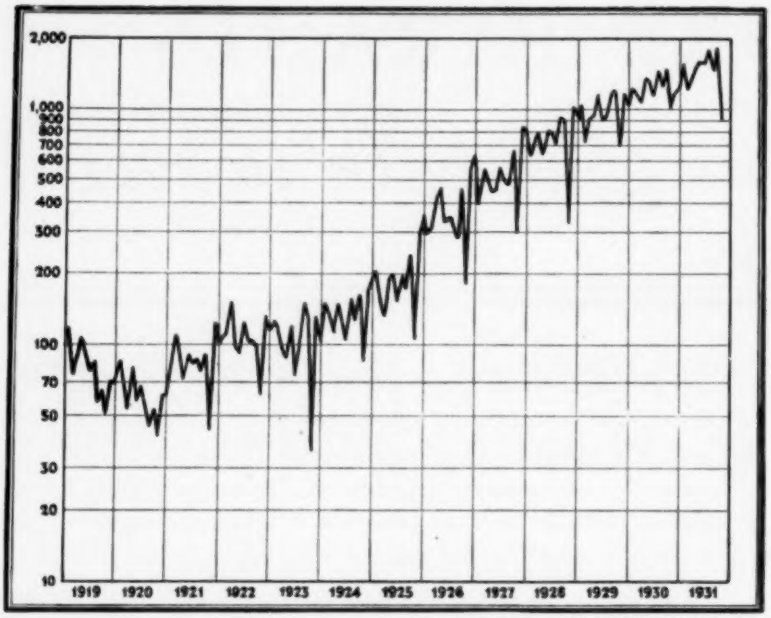
The Literary Digest offers to help you make a thousand-name check of reader responsiveness—and will rest its case on the returns. If interested, ask for details. Our subscription list is always open for inspection. Tests for quantity and quality are welcome.

★ ★ ★

The Literary Digest is an essential magazine. More than 70% of its subscribers are executives, owners of businesses or professional people. . . . It enters the best million homes with telephones, a market which buys two-thirds of all advertised commodities and buys them first. *The Digest* reaches 36% of all families of $10,000 income and over and 20% of all families having over $5000 income. Advertisers buy a guaranteed average circulation of at least 1,400,000 preferred prospects. Write for rates and further facts.

★ The Literary Digest ★

SOUNDING·BOARD OF AMERICAN OPINION



Business Review, Philadelphia Federal Reserve

PHILADELPHIA FORECLOSURES—*Charting the growing distress in real estate—writs (for one or more pieces of real estate) issued since 1919*

Crisis in Real Estate Reflects Fundamental Financing Weakness

Survey shows how lack of organized mortgage market has left depression free to pile up difficulties

REAL estate mortgage tension is exerting a critical strain on financial conditions and on property owners in many sections of the country.

A survey by *The Business Week* of the situation facing real estate lenders, borrowers, and entrepreneurs brings out the facts that produced the Oct. 7 White House conference and will be the motivating forces behind relief moves now being considered by Washington to supplement the aid which the new National Credit Corp. will extend through the banks.

No Meeting Place

The succession of boom and depression has accentuated the weaknesses inherent in this country's method of financing real estate. The method is business by personal relationship; its weakness the almost complete lack of any organized means for the borrower and lender to meet. A mortgage, once made, usually is held to maturity by the lending individual or institution. This fact, plus the almost total absence of standardized building and appraisal specifications, has prevented the development of a market. Thus mortgages, like real estate itself, lack marketability in the sense of stocks and bonds. For them there always is a market at a place and price.

The lender, should he be pressed for funds, has no prompt and ready method of disposing of the mortgage he has made. If several lenders in one locality simultaneously seek to sell obligations which they hold, they push down local prices—though elsewhere large amounts of funds may be looking for investment in mortgages at the same time.

To meet this inherent weakness demands have arisen for the mobilization of real estate investment funds in a real estate mortgage rediscount bank. This idea in a modified form is being considered for emergency relief.

Holders Want Money

At the present time the depression has made many mortgage holders anxious to get hold of their money. Banks, building and loan associations, insurance companies, and individuals are pressed for cash. Loans from the National Credit Corp. will help those banks joining it which have mortgages on which the pool will lend. But it will not lend on all their mortgages because many have been badly weakened by the depression.

Real estate is now generally appraised 20% to 40% and more below the level of a few years ago. Thus a mortgage loan of 50% to 75% of the appraised value in palmy days now has little or no margin of security. The same thing happened to stocks and bonds, but on these lenders called for more margin or sold out when the danger point was near. The lender on real estate could do neither.

Income Drop Hurt

Simultaneously, the income which a property would produce has dropped as dull business, unemployment, and lower wages have curtailed the demand for space, brought more vacancies and lower rentals. The point has now been reached at which many properties will not produce enough income to pay amortization of mortgage, interest or, in some cases, even taxes—and at which the price, if one can be obtained, is below the face of the mortgage.

In this situation lenders have had no alternative but to be lenient. Tax collectors in many areas have also decided that leniency is the best policy. But as time has unprofitably gone on lenders themselves have become pinched and begun to foreclose, and taxes have had to be collected.

Naturally properties extravagantly appraised and borrowed upon went first. These were apartments, hotels, and office buildings, many of which were financed by real estate bonds. Of some of these the less said the better. It is estimated that holders will lose money on 60% of the $10 billions of these bonds outstanding.

Even Best Risks Involved

Now the pressure is becoming severe even on more conservatively financed buildings and on homes. Under the strain, many property owners in widely separated localities are losing out. Foreclosures mount.

Property owners with maturing mortgages are in the worst position. To re-finance they are told to scale down the mortgage commensurate with the drop in appraisals. But for many that is impossible.

In the face of the current uncertainty the supply of mortgage money is less than it has been in a long time. Nevertheless, most cities report to *The Business Week* that they have an adequate supply for loans on residences—for low percentages of unusually low

appraisals. This, of course, does not help the property owner whose mortgage was made on high appraisals and who now is called upon for payment.

Insurance companies are the chief lenders, supplemented in some places by trust companies, building and loan associations, and savings banks.

Nine Key Cities Report On Real Estate Situation

CITIES reporting to *The Business Week* on their real estate mortgage situations show only slight diversities from the general trend of trouble. Atlanta is the most encouraging.

New York—First mortgage rates shaved to 4½% on the best locations, with a large supply seeking investment on low valuations. Ratio of uncollected real estate taxes advanced from 11% in 1927 to 14% at the end of 1930, is higher in 1931. Lenders forced to be very lenient in demanding repayment of principal or even payment of interest on many properties.

Chicago—Abundance of mortgage money available for good 50%-60% residential loans on present values, with little demand. Demand for renewals is heavy, largely on buildings where a 25%-35% decline in value has made existing mortgages excessive. Flat and store properties even harder hit than residences. Volume of foreclosures on residences appreciable, on other buildings very large, with trend upward. Many hitherto lenient creditors who have been carrying borrowers along in hope something could be worked out will be forced to foreclose. Unusually bad tax situation makes things worse.

Philadelphia—Foreclosures mounting steadily, though October dropped seasonably. Stress of a badly disturbed banking situation accentuates depression troubles. Supply of mortgage money small.

Detroit—Subnormal supply of mortgage money preventing practically all speculative building. Considerable demand both for refinancing of maturing obligations and new construction activities, much of which cannot be supplied. "Yet a man who wants to build a home has little trouble in getting a loan if he has a substantial amount of cash as first payment and his mortgage is for only a small percentage of appraisal."

Volume of foreclosures of all types appreciably larger than normal, though below grossly exaggerated reports. Trend of foreclosures continues upward and is likely to do so for some time because, as mortgages mature, holders are becoming increasingly harder pressed.

Cleveland—Foreclosures running almost exactly the same as a year ago in number, but money from sheriff's sales totalled $9.5 millions for first 6 months of 1931 against $5.2 millions for same period of 1930. Tax foreclosures very few though delinquencies large. Almost no lending agency is foreclosing where the debtor is even able to pay interest.

Minneapolis-St. Paul—Supply of mortgage money sufficient on low valuations. Refinancing demand heavy. Residential foreclosures exceedingly heavy, with the trend slightly upward. Declines in rents making property unprofitable unless owned outright. Foreclosures likely to continue though reduced valuations have improved the situation in recent financing. Some are making real estate loans on a basis which permits foreclosure to be started in 30 days.

Louisville—Mortgage money scarce. Foreclosures somewhat limited as mortgage holders prefer to await any chance of clients coming through. Failure to meet principal payments is frequently being waived if the owner will take care of interest, taxes, and insurance—especially the latter 2.

Atlanta—Plentiful supply of mortgage money on hand with demand heavy. Foreclosures fairly numerous but trend is decidedly downgrade. Outlook on foreclosures seems brighter than at any time for the past 2 or 3 years. A few of the more important mortgage lending companies are being liquidated.

St. Louis—Plenty of money for residential mortgages with good demand. Residential foreclosures considerably above normal but no decided upward movement in recent weeks. Present foreclosure rate likely to continue through near future. Unemployment is chief cause. Many first mortgage holders are declining to renew total amounts, making it difficult for property to be refinanced quickly. Tax authorities have taken a liberal attitude.

Construction Industry Unites for Coordination

An unusually progressive step was taken by the construction industry last week when it formed the Construction League, bringing together over 100,000 members of 19 groups in the industry, embracing interests ranging from architects and engineers to the Building Trades Department of the A. F. of L.

Robert D. Kohn, New York, president of the American Institute of Architects, heads for 2 years the provisional organization of the new group. Purpose of the group will be to provide a medium for coordinated action within the industry. Periodic conferences will thresh out problems of general interest, while a permanent secretariat at Washington composed of active heads of 3 of the member organizations will carry on routine programs.

The league seeks not only the professional leadership offered by architects and engineers but also to do nationally what numerous building congresses have done in individual cities. The New York Building Congress has promoted apprentice training plans, awards for superior workmanship, adjudication of jurisdictional disputes, built up a better-than-average spirit of cooperation in the industry.

Road Building Contracts Set Minimum Wages

In response to protests about low wages paid on state highway construction jobs, the Bureau of Public Roads has announced its intention of permitting minimum wage rates to be written into contracts. States will be given the option of incorporating a similar provision into their federal aid contracts.

Only wage rates of common labor will be covered, but in road work, this will embrace a large proportion of employees. Recognition must be given to fair differentials between various communities and regions within a state. According to Thomas H. McDonald, chief of the Bureau, the policy will be followed only to safeguard workers during the present emergency.

It was first thought that state adoption of a policy against wage cuts for construction workers would be enough to halt the wage-cutting practices but this has been found insufficient. Future specifications will remove the uncertainties regarding public building work which call for local wage rates but do not specify what these rates shall be.

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The Business Week
System

Tariff Protects Our Flaxseed; Drought Protects Argentina's

Short crop here leaves us dependent on imports but consumption drop keeps prices falling

ATTEMPTS to bolster up our flax production and free this country from dependence on Argentine supplies have been dealt a heavy blow. Unfavorable weather conditions in the Northwest have cut predictions on the forthcoming crop to 11½ million bushels, 35% of normal, and smallest in 10 years with the yield per acre set at 3.8 bushels, lowest on record, against 8.4 for the last 10 years. This means that we must continue to rely for a large part of our flaxseed requirements on the South American republic, which we had hoped to oust from the home market through a high tariff, and will be forced to increase our purchases there.

Below Normal

At the beginning of the season it looked as though there would be a flaxseed crop of 20 million bushels. This is about half of our normal requirements and even some millions below our present demand for flaxseed—greatly reduced by the decline in linseed oil consumption.

Farmers, encouraged by the Farm Board to diversify their crops and promised a greater return on flaxseed as a result of last year's tariff increase to 65¢ a bushel, planted 3,132,000 acres to this commodity—a sizeable acreage, though not so large as in 1930. But a severe drought and a grasshopper invasion upset all calculations. In most of Montana and western North Dakota the crop has failed completely, while in other sections of the northwest the yield is much below average.

The Weather Threat

The present situation raises the question of whether the United States will continue to try to hold its position as a large flax producing country, or whether our farmers will turn to crops less subjected to weather hazards. Flaxseed, the last crop sown—sometimes as late as June—comes to the market in October and November, and is in great danger of weather damage.

Despite the short crop and tariff protection, the domestic price of flaxseed continues downward; is now around $1.27 a bushel (Duluth). The decline reflects the course of the Argentine price, which has fallen to a level of about 67¢, with production up and consumption down. Argentine flaxseed, however, still sells here for 15¢ to 20¢ more than the domestic product on account of the 65¢ import duty and hauling charges.

The downward trend is expected to continue in view of the large flaxseed supplies in Argentina. But Argentina apparently is undismayed and is steadily increasing her output. The Argentine flax area, totalling 8,344,000 acres this year, is sufficient to supply the entire world. The Flax Institute of the United States states that the average yield of flaxseed per acre in Argentina is 50% greater than that in this country. United States imports from Argentina last year amounted to 10,617,000 bu. So far this year we have imported 11,667,000 bu.

Issue of Lawrence Strike Depends on Leadership

WITH the strike last week of 7,000 workers in the Wood and Ayer mills of the American Woolen Co. and 500 employees of Pacific Mills, nearly all the 20,000 textile workers of Lawrence, Mass., are out on the streets. On Sept. 26 it was announced that all mills would put through a 10% wage cut effective Oct. 13; workers refused to accept the reduction.

Mills say they cannot arbitrate, will discuss the question with their own mill employees, must close down if the reduction is not made. United Textile Workers of America, A. F. of L. affiliate, and American Textile Workers Union, centered chiefly in Pacific Mills, are willing to arbitrate. They voted against the cut but not to strike. The National Textile Workers Union, radical organization which supplied the fireworks in the Lawrence strike last February and the Rhode Island strikes last July, is blamed for starting the walkouts. A citizens' committee of Lawrence has been active in trying to avoid a strike or shutdown.

Reasons for Cut

Mill officials cite economic conditions and competition from other New England towns in support of a cut. They believe that without outside interference the story could be sold to their own workers. Workers don't want a cut in wages—nor a strike or a shutdown in these hard times. They seem to be awaiting capable leadership and the eventual outcome seems to rest in who assumes it—the mills, the conservative or the radical union. Less than 25% of

ACME

TALKING IT OVER—*American Woolen workers refused to accept a 10% wage cut, staged a walkout, gather at the Lawrence, Mass., Mills*

the workers are organized, according to *Textile World*, but all are so sensitive to influence that this small minority can easily swing the mass along with them.

Miners Take Cut in Fight On Non-Union Operators

LABOR union strategy assumes unusual features in periods of depression when normal procedure often produces no results.

Following the recent example of the full-fashioned hosiery workers (*BW—Sep30'31*), miners in the recently reorganized fields of northern West Virginia (*BW—Jul1'31*) have agreed to accept wage cuts of 25%.

Obvious purpose is to lower union wages so much that non-union mines will be unable to compete, thus forcing non-union workers into the union for self-protection. Once the field is organized demands for wage increases will be made.

Observers of the coal industry believe that if this policy of cooperating with union operators against non-union mines had been followed in 1927, when the Jacksonville agreement expired, the United Mine Workers would have kept much of the power which it has now lost.

The union then insisted on keeping its wages up, and as a consequence has steadily lost power and sacrificed the allegiance of many strong operators who had continued to rely upon union efforts to bring order out of the industry's chaos.

Coast Builders Include Labor in New Wage Board

FORMATION of a new Impartial Wage Board upon which labor, employers, and the public are all represented, is the first step taken to obtain permanent peace in the construction industry in San Francisco.

For the last 10 years a similar board has been in operation to decide wage disputes. It was formed by the Industrial Association ostensibly as an open-shop organization to present a united employer front against union labor demands. The association manned it with eminent citizens not connected with the construction industry to make its own investigations and decide on proper wage scales.

The union never recognized it, but year after year, with the single exception of 1926 when carpenters took the

offensive to unionize the 10% of their number in the city still unorganized, the wage scales it set were accepted by employers and employees.

Now the association has invited the unions to join in forming a new board of 3 members, one nominated by labor, one by the employers, and a third to be a neutral.

Labor has accepted and the first 3 board members will be Will J. French, state Labor Commissioner and a former labor unionist; Henry J. Brunier, one of the city's largest builders; and Dean W. E. Hotchkiss of Stanford University. The new board, like its predecessor, does not contemplate collective bargaining nor will it be an arbitration body. It will simply study conditions bearing on the construction industry and standards of living and will fix wage scales on its own initiative.

Bricklayers' Union Eliminates Dues

UNEMPLOYED members of the Bricklayers, Masons, and Plasterers Union throughout the United States and Canada have just received a contribution of $500,000 from the union in the form of exemption from payment of dues for November, December, and January, while they continue to be eligible to participate in benefits aggregating $1½ millions.

Pay Taxes in Repairs Is Seattle Suggestion

WEST COAST LUMBERMEN'S ASSOCIATION is urging the city of Seattle to cut a dollar from home owners' taxes for every dollar spent for labor for repairs or improvements up to 50% of 1931 tax bills. The plan originated last winter in Amsterdam; the Hollanders report it was highly helpful.

There are 55,000 home properties in Seattle; 20,000 pay over $100 annual tax—average, $125. If half of these better homes took full advantage of the offer, spent $62.50 each on labor, they would give 625,000 hours of work at $1 an hour—or 113.6 hours for each of Seattle's 5,500 unemployed building trades workmen.

It is estimated the home owners would spend $1 million on building materials, help workers in those lines.

The city would lose only 5.2% of its gross tax revenue; would save relief expenditure; could recover the amount through increased assessments.

Wide Reading

THE VICES OF FREE COMPETITION. Philip Cabot. *Yale Review*, Autumn. Three courses are possible at the present crisis in our capitalist régime: We can refuse to do anything; we can yield gradually to the demands of workers for greater security; we can turn danger into opportunity, and by socializing our own industrial system make a bid for leadership among the capitalist nations.

FITTING THE WORKING SCHEDULE TO DECREASED DEMAND. *Factory and Industrial Management*, October. Just how to plan production schedules and profits when business is slack. A specific example; concrete data.

A MODERATE RENTAL HOUSING PROJECT IN PITTSBURGH. Charles F. Lewis. *Architectural Record*, October. A definite housing project in detail. Community aspects as well as special reaction of aggressive architects.

COLOR IN THE DAILY. Herschel Deutsch. *Advertising & Selling*, Sept. 30. What the advertiser should know about this latest development in the newspaper field. List of dailies, by states, offering color.

INSTALLMENT AUTHORITY CHALLENGES CRITICS. H. Bertram Lewis. *Automotive Industries*, Sept. 26. Time sales add $6 billions to the nation's volume of trade.

NEW ERPI PLAN PERMITS PAYMENT OF PERCENTAGE OF GROSS RECEIPTS. *Motion Picture Herald*, Oct. 3. Small theaters install talkie apparatus, pay on percentage-of-gross-income basis, in new Western Electric selling innovation to get summer and slack time business.

COPPER CAN NOW BE MADE HARD. William E. Gammon. *Review of Reviews*, October. Montana discovers how to harden copper—can give it twice the tensile strength of structural steel.

FALLACIES INCREASE THE HIDDEN COSTS OF YOUR BUSINESS. Raymond Willoughby. *Nation's Business*, October. Bogeys include "the independent is inefficient and ought to be wiped out," "2% of the people own 90% of the wealth," "the rich pay most of the taxes." An exposé of some of the goblins that frighten business.

THE NEXT "BIG CHANGE"—IS IT AIR CONDITIONING? W. B. Spooner, Jr. *Advertising & Selling*, Sept. 30. Will it affect your product?

A MODEL TOWN THAT GREW ON A PRAIRIE. James C. Young. *New York Times Magazine*, Oct. 11. Kohler, Wis.—an example which approaches the ideal of industry surrounded by a rich community life.

475 COMPANIES TELL HOW THEY ARE ADJUSTING SALESMEN'S COMPENSATION. *Sales Management*, Oct. 3. Concrete experience concisely tabulated.

BEGINNING THE SECOND FIFTY YEARS. William Green. *American Federationist*, October. History, to date, of the various units making up the A. F. of L.

THE WORST AMERICAN STATE. Charles Angoff and H. L. Mencken. *American Mercury*, October. More conclusions drawn from a dozen or more measures of the capaci-

ties of populations throughout the country. In this second study Massachusetts, Connecticut, and New York rank high; Mississippi, South Carolina, and Alabama rank low. Interesting marketing background.

A GERMAN FREE STATE IN AFRICA. R. C. Hawkin. *Contemporary Review* (London), September. Agitation to give Germany a colonial outlet in Africa is taken up by a Britisher who has a definite plan, with the area all marked out on a map.

PRICE CHANGES IN FOREIGN COUNTRIES. E. Huntley Omohundro. *Commerce Reports*, Oct. 12. August prices, compared with July. Latvia alone shows an increase. Czechoslovakia, Austria, and Holland show the greatest fall in prices.

RUSSIA'S OBJECTIVE. John M. Carmody. *Factory and Industrial Management*, October. McGraw-Hill's special observer to Russia begins a series of articles on the progress of plant construction, of plant operation, and of labor management in the Soviet Union.

BOOKS

THE BANKS AND PROSPERITY. Lionel D. Edie. Harper, 179 pp., $2.50. Delving into monetary fundamentals too often left untouched, the author sheds important light on causes of present price and business disturbances. Dr. Edie notes the anomaly of large supplies of goods coincidental with the lack of adequate food for many. Financial administration is largely blamed. Interpretation of faults; a plan for the future.

LABOR AGREEMENTS IN COAL MINES. Louis Block. Russell Sage Foundation, 513 pp., $2. Case study of operation of agreements between miners' and operators' organizations in the bituminous coal fields of Illinois.

GUIDE TO BUSINESS AND INVESTMENT PLANNING. Edited by Laurence A. Rice. United Business Service, 122 pp., $10. "To (1) replace half-truths (about investments) with facts, and (2) provide a reliable guide for profitable business planning."

PROBLEMS IN BUSINESS STATISTICS. T. H. Brown, McGraw-Hill, 500 pp., $5. Statistical methods applied to actual problems.

PETROLEUM FACTS AND FIGURES. Fourth Edition. American Petroleum Institute, 268 pp. Complete statistical picture of the petrolem industry for 1930, with an appendix giving in detail history of the conservation movement to date.

BRANCH GROUP, AND CHAIN BANKING. G. T. Cartinhour. Macmillan, 351 pp., $4.50. Criticism of accounting policies of group systems, discussion of federal and state regulation of group banking, description of actual functioning of group system.

BROADCAST ADVERTISING. Frank A. Arnold. John Wiley, 275 pp., $3. Discusses problem of getting radio circulation, adapting program to subject and audience, re-selling the broadcast programs, and agency relations. Charts.

RURAL BANKING REFORM. Charles Wallace Collins. Macmillan, 187 pp., $2. New times demand new methods. Banking is taking on new forms. Coming legislation is important.

HANDBOOK OF NEW YORK CITY BANKS. Edited by F. Edmonds Tyng, Jr. Overseas Statistics, Inc., 207 pp., $2.50. Up-to-date and convenient.

Washington Reactions: Garner, War Debts, Wild Kansas, the Navy

WASHINGTON—John Garner, of Texas, who will be Speaker if the Democrats organize the House, picked out for attack the only one of President Hoover's proposals that inevitably will come to pass.

That is, there will be no payments on reparations and war debts next year, whether Congress likes it or not. You can find no difference of responsible opinion on that, though you can find wide variety of views as to how the situation ought to be met.

Garner for obvious reasons is playing politics. The Democrats, who at first were much worried when Hoover seemed to be gettting general credit on his first moratorium proposal, are now greatly relieved at the secondary reaction. This was that Hoover was doing nothing for America while he was saving Europe.

Explaining Garner's Stand

Hence Garner's stand against an extension of the moratorium, especially as it seemed to him that Hoover was making a move—the Emergency Finance Corp. that would be popular and would tend to offset any unfavorable reaction to his European policy.

So he told Hoover, as he told a reporter afterward, that the President "is not only asking us to write his message to Congress, but to underwrite it."

DESPITE a valiant fight to build a "treaty navy" by Senator Hale of Maine, Representative Britten, of Illinois, chairmen of two Naval Committees, and a few others, most arriving senators and members of the House indicate that President Hoover will be backed to the limit by Congress in any naval economy cuts he may recommend.

FURTHER indications of a much more radical flavor in legislation by Congress this winter, and no end of radical oratory which may frighten business, continue to pour in. Kansas has gone Populist again, according to returning visitors.

The latest word is that it is very doubtful if Vice-President Curtis could be elected Senator. Hence Curtis, who has been suspected of fearing Hoover could not be re-elected and of planning to return to the Senate, may again change his mind.

John R. Brinkley, the goat gland "physician" alleged to have made a small fortune by rebates from druggists on sales resulting from his radio advice, is scaring Curtis. Brinkley ran for governor last year. His name was not on the ballot, but about 186,000 wrote in his name so that the votes counted; 40,000 more were written in but not counted. Had they been counted he would be governor of Kansas today.

He had been denied the use of the radio at home, so he set up a powerful station in Mexico (on the same wave length as the Kansas City *Star* station).

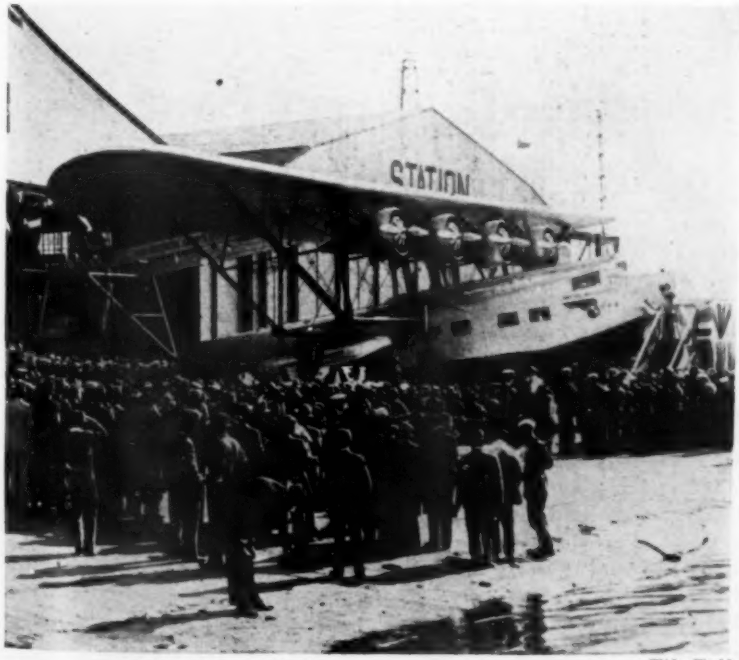
He has been going up and down the state this summer, scaring all the regulars to death and holding his audiences as no one else has since Sockless Jerry Simpson and Senator Pfeffer.

All of this will have its effect on the Kansas delegation in the House, on its two senators, and on the Vice-President.

Capper, always with his ear to the ground, has come out sharply this week for drastic curbs on short selling, both of commodities and stocks. Harold McGugin, new member of the House from Kansas, is reported outdoing Brinkley in the extremes of demagogy to which he goes in his speeches.

Congress Nervous

The natural tendency on the part of the national legislators will be to sway a little with the wind. For never has a Congress looked forward to an election more nervously. Hard times always operate politically against the party and the men in office, unless the men in office are apparently in a crusade to upset the powers that be. The desire to survive hard primary and election fights will turn into a radical many a Congressman who would like to be conservative and go along with the Administration in this ticklish time.



Wide World

LARGEST AMPHIBIAN—*The 40-passenger Sikorsky is christened "American Clipper" by Mrs. Hoover. Appropriately, water from the Caribbean was used. It joins the Pan-American fleet on the Cuba-Canal Zone run*

Brazil's Latest Swap Is German Coal Victory

GERMANY and Brazil have negotiated a coal-coffee swap—500,000 tons of Ruhr coal for a corresponding amount of Brazilian coffee. Whatever the indication is that we are entering an era of barter, or, as some European economists have dubbed it, "era of the coffee standard," there is another significance.

As recently as 1929, Great Britain sold to Brazil 1,800,000 of the total 2 million tons of coal imported. In 1930, Brazilian orders to Britain fell off, and the British consular officers at Rio de Janeiro "found it necessary to remark" that Brazil's important Central Brazilian Railway had ordered more than 150,000

tons of coal from Germany at a price of about 2s a ton less than the South Wales price.

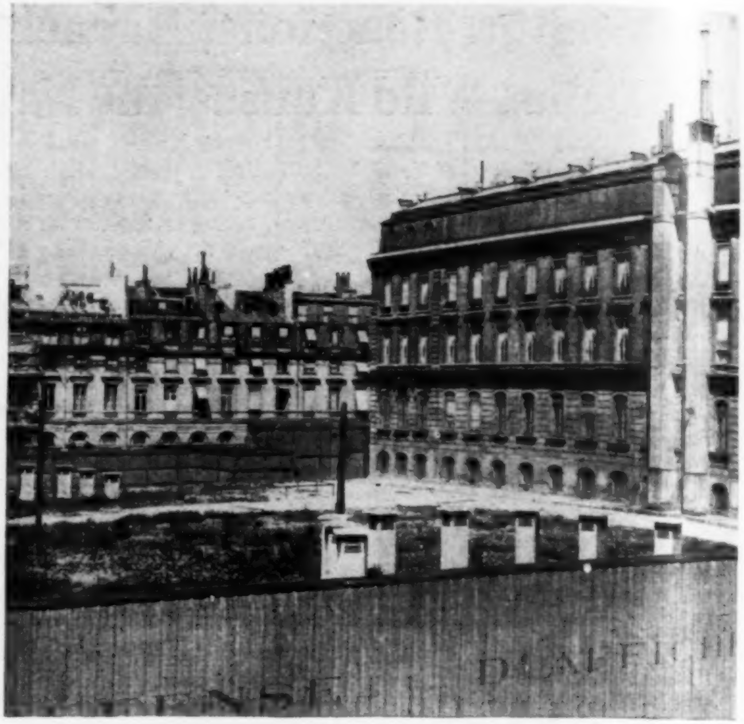
Further indication of the shift from Britain is indicated in an official report issued recently. Imports of coal into Brazil during the first 2 months of 1931 totaled 196,069 metric tons, of which the Ruhr supplied 73,899 tons, Great Britain 68,303, the United States 45,562, and northern Germany 7,955 tons. Average c.i.f. costs per metric tons were: Ruhr, $6.20; Great Britain $6.40; the United States $6.67.

More Battle Than Barter

Barter is in the air. In this case, Brazil has a coffee surplus, a deficiency of foreign exchange. Germany has a surplus of coal, a need to push exports as rapidly as possible.

The great Brazil market scarcely has been "captured" in the last 2 years, though it has been successfully opened to German exporters. In the keen competition which has developed, particularly between Germany, Poland, and Great Britain, for the world's coal markets, each country is literally fighting for every sale. At London last week, all Europe's big coal exporters agreed to a quota system for exports (*BW—Oct14'31*), but the plan will not be ratified until Oct. 22 at Geneva.

So it seems the Brazil–Germany deal is not just one more example of business by barter. It is as much one more struggle in the battle for the world's coal markets.



International News

Most Valuable Vacant Lot—*Behind this high board fence, some 170 feet below the roots of the weeds, lies one-fourth of the world's gold supply. The square pipes in this forsaken-looking lot are ventilators for the vaults below; the building at the right is the Bank of France*

Exporters Hit Trouble In Brazil's Moratorium

United States exporters shipping to South America are running into increasing difficulties.

Brazil, on top of tariff increases and the suspension of payments on foreign loan service charges, has declared a 60-day moratorium on all foreign commercial and private payments.

The scheme will work something like this: A New Orleans exporter sends a consignment of goods to São Paulo. It arrives and the Brazilian importer makes payment in one of the Brazilian banks at the rate of 12.350 milreis per $1 (U. S.). At the end of the 60-day period, the banks are instructed to buy exchange to remit to New Orleans. If there is a difference in the rate from the fixed amount already deposited, the importer will have to make it up when the foreign exchange is actually purchased.

This is the second Latin country to establish a moratorium on import payments. Uruguay's plan (*BW—Oct14'31*) guarantees a minimum rate of payment, and plans to pay on a 20% a month basis beginning in January.

No other Central or South American countries have declared moratoria on foreign commercial obligations, though import licenses and foreign exchange control are greatly hampering the flow of foreign trade.

Threadneedle Street Ponders Pending Elections—Tariffs

European News Bureau—British business is reacting upward on prospects that the National government will be returned to power in the forthcoming election, Oct. 27. If it returns it brings tariffs.

Impartial observers, however, are less certain of the outcome. Among themselves they list 3 possibilities in the order of their probability:

(1) Return of the National government (headed by MacDonald) with a mandate for tariffs, and a workable majority.

(2) Return of the National government on a small and possibly unworkable majority.

(3) Landslide for Labor.

If the first happens the course of British politics will be easy to predict. There will be a first venture into a high tariff for revenue. This will be followed by cautious developments of purely protective duties, probably based on the existence of the Safeguarding duties, created in 1915 by the Free Trade Chancellor of the Exchequer, McKenna, now chairman of the Midland Bank. Economies will be rigid and unyielding. Agriculture will probably be protected by a quota system.

If a deadlock is reached, and Parliamentary balance is precarious, it will mean that tariffs by consent will be tried. Henderson (Labor's new leader) has assented to a 10% revenue tariff. A National Government with a precarious majority might consent to bar-

gain the dole cut back to a 5% reduction in exchange for an agreed tariff.

If Labor should win heavily, the economies of the late Government will not at first be seriously affected. The dole will be restored either to its old level or to a level much higher than that fixed by the National Government. Revenue tariffs will still be probable. From that first cautious adoption of the existing economy program a second budget would emerge with singeing direct taxes on the higher income levels, increased indirect taxation on those commodities thought to be the weaknesses of the rich and the beginning of nationalized banking.

A Market at Stake

World, as well as British, business is watching to see which way each straw bends. The British market is a tremendous stake to more than a dozen large export countries.

For many years before 1915 the only duties imposed by Britain were either purely for revenue purposes—those on tea, cocoa, coffee, sugar, and tobacco; or for revenue with a mixture of ethical motive—those on wines and spirits.

The McKenna duties, introduced in 1915, were intended as luxury taxes, but they had some protective effect. Films, clocks, watches, motor cars, and musical instruments were taxed. In 1921, a 33⅓% duty was spread to cover "key industries," but empire products were exempted. These "key" products included cameras and optical lenses, scientific instruments and apparatus, chemicals and special appliances.

In 1924, new duties were imposed on cutlery, gloves, incandescent mantles, and silk, with a definite aim to protect home industries which were considered essential, but whose products before the war came from enemy countries.

Bargaining Power

Today "free trade" Britain contemplates a general tariff ranging from 10% (proposed by Labor) to a 25% to 33⅓% tariff (sponsored by the National government). Food products, which bulk large in the country's imports, and raw materials for manufacture, are likely to come in on a quota basis.

A system of tariffs, and the quota system on imports of foodstuffs and raw materials, will put Britain in a position to bargain in foreign markets, to offer important preferences to empire products. It will make revenues for the government. And it will force a realignment of trade channels which is bound to work to the disadvantage of many countries.

Fearing Upheaval in Germany, Crisis Here, France Is Panicky

Wild rumors about our banks persist and hoarding develops on large scale

EUROPEAN NEWS BUREAU (*Cable*)—Paris as an economic seismograph is registering disturbance in several areas. Some are in the immediate vicinity, others at varying distance. Trained but tired French observers expect further shocks in Berlin and New York areas.

Local nervousness in Paris is due to several causes. In the first place, the French public is worried over the stability of American banks. So are other European countries which have been fed a host of rumors, some of them attributed to Paris, some of them to local interpretation that the Hoover credit scheme is an inflationist move and that it proves the weakness of American banks. Correct interpretation of the Hoover project by Dr. Burgess, now in Europe, and by American officials, have in part allayed these fears—except in France.

French See Panic Here

A second reason is closely related, reflects more of the business and banking than of the public reaction. This is the realization that France's financial liquidity would be in real jeopardy (since London, where France is reported to have investments exceeding \$1 billion, suspended gold) if dollar balances in New York were suddenly cut off. The best banking opinion in Paris, according to reports to *The Business Week,* reasons that "New York banks, especially those involved in Germany where their assets are now frozen, cannot prevent collapse." With French short-term investments in the United States estimated at \$250 millions, and long-term at \$1 billion, French fear of a financial panic in the United States means fear for her own position. Hence the continued heavy gold withdrawals, and the dispatch to the United States of important financial heads.

A third, and growing source of worry, is the distrust of their own banks by the French, this despite the flood of deposits from abroad seeking refuge in "the most secure" financial market. The most disconcerting phase of this reaction is the growing tendency to hoard. It is reported in New York that the latest demand from Paris was that a substantial share of a recent gold shipment be in the form of \$20 gold pieces to be passed out to worried Frenchmen who want the security of real gold.

Germany is another source of worry. Less than a month ago Laval and Briand at Berlin paved the way for a Franco–German economic accord (*BW—Oct 7'31*). Since then Nationalistic events in Germany have turned French public opinion cold to the project. The Hitler–Hugenburg–Schacht display, and the audience which Von Hindenburg granted Hitler, sent chills down many a French spine.

Whether or not subsequent events prove that Dr. Bruening can maintain a majority in the Reichstag, responsible European observers are of the opinion now that he will remain in control even if he is forced to take the one remaining step of making a virtual dictatorship an open one.

In either event, it is possible to foresee the trend of events in Germany this winter as they are forecast in the 3 emergency decrees which mark the Bruening régime and which form the channel through which German business is forced to flow.

As predicted, German finances reached another crisis in early October when a renewal of the gold outflow and foreign exchange losses caused the ratio of gold cover to fall within one week from 40.1% (legal minimum 40%) to 31.2%. Part of this was due to the normal strain of the quarter end, but there can be no doubt that the Reichsbank has now definitely said good-bye to the legal 40% minimum.

Germany's Reserve Shrinks

Two months ago if cover had so dropped it would have started a panic. After the events of the last month, it passed almost unnoticed. What really matters is that Germany's last reserve is shrinking. In order to protect this last reserve, 2 steps have been decreed: (1) Foreign exchange must be further tightened; (2) bond and share sales on foreign order are limited.

If the new emergency regulations do not prove effective, Bruening is likely to enforce these drastic measures:

(1) Under the Basle "standstill" agreement, Germany can postpone the monthly transfer of 15% of outstanding mark balances. The position is already so serious that it must be expected that Germany will avail herself of this right—perhaps before the first instalment at the end of October.

(2) If this will not sufficiently alleviate the position, the next logical step

Keystone

THE HOUSE THAT JOBLESS JACK BUILT—*Unemployed workmen built this settlement themselves. The land is donated by the town; materials are supplied on the town's credit. Occupants pay off the debt at 12 marks a month. Cheapest rent in Berlin, 70 marks—and no garden, as here, at Brandenburg an der Havel. The idea is spreading rapidly*

would be a moratorium on interest service on short- and long-term debts. The Reichsbank has already asked Central Banks in Switzerland and Holland to approach their national banks and to induce them to lower their present interest charges on postponed short-term credits, which now range from 6½% to 8% (American banks still charge only from 4½% to 5%).

Municipal Finances

Of next importance to Germany is the crisis in municipal and state finance. The latest emergency decree prohibited the savings banks from making any further advances to cities and communes, and it cut off this important source of communal credit without putting any other sources at the disposal of distressed German municipalities.

The Basle "standstill" agreement left the question of foreign short-term communal debts open. They were not extended like the bank debts.

There is not the slightest chance that German communes will be able to meet their short-term engagements in a normal way and within reasonable time. Funding of the debts has become imminent. A plan has been evolved, destined to help the communes by inducing creditors to agree to a voluntary conversion of short-term credits into a 5- or 6-year loan. As an incentive they will be offered a Reich guarantee for the loan. The creditors can, if they like, insist upon repayment of their short-term credits and take the risk that the commune will stop payments—as so many German communes are now on the verge of doing. The Government believes a similar agreement with foreign creditors will be possible.

Lower Prices a Help

Germany's position is precarious. Prices are coming down, give the Reich a rare competitive advantage in the all-important world export markets. September foreign trade shows a record favorable balance of $92 millions. For the first 9 months, the favorable balance is $457 millions. By the end of the year, Germany expects it to reach $610 millions. Since it turned in 1929, Germany's favorable balance has reached nearly $1 billion.

France and Germany (and the United States) are thus key factors in the world economic situation. On America's ability to withstand France's drastic gold drain rests the immediate outcome. On Bruening's ability to hold Germany together and force through his emergency program rests the hope for Franco-German cooperation and the possibility of initiating a constructive program of economic rehabilitation.

France Bids More Money To Bind Austrian Bargain

EUROPEAN NEWS BUREAU (*Cable*)—Though Austria voluntarily gave up the idea of Anschluss with Germany because France promised, on that condition, to lend financial aid, Austrians had no idea of selling out their country to France.

It is not surprising, then, that Vienna is agog this week over reports that the government is planning to concede France the dominant economic and financial position in the country. This blocks the Anschluss completely, but in exchange relieves the Austrian government of the crushing obligations involved in its guarantee of the Credit Anstalt's liabilities.

2 Requirements

Two requirements demanded by Paris have stirred a storm of Viennese antagonism: (1) Merge Austria's "Big Four" banks (Credit Anstalt, Niederoesterreichische Escomptegesellschaft, Laenderbank, and Wiener Bankverein) into a single institution under French financing; and (2) convert Austria's continental banking system with its control of big-scale industries and ownership to the English system of non-participating financing.

Definite discussions between Chancellor Buresh (Austria) and French financial experts are known to have taken place during the recent visit of the Chancellor to Geneva. And Avenol, the League of Nations financial investigator in Austria, is due back in Vienna soon to continue the negotiations with the Austrians.

Austria in a Hole

Austria is in a tight position financially. France knows it and is utilizing her own financial strength to buy her way into this key country of Central Europe. Not everything favors the French, however. Many Austrian bank-controlled industries are in financial difficulties and are no longer profitable, but France will have to take over these liabilities along with the assets to achieve her purpose.

How much capital the French are prepared to sacrifice, if necessary, in order to gain these politico-economic ends, is a question. Not a few observers expect France to spend lavishly to strengthen her sphere of influence in Central and Southern Europe. If this project succeeds, Austria is not only weaned from Germany, but France's Central European allies—Poland, Czechoslovakia, Jugoslavia, and Rumania are drawn into closer unity.

Business Abroad—Swift Survey Of the Week's Developments

World **business is under a nervous strain. Crux of the problem is the German political situation, and Franco-American financial mistrust. ...Germany, virtually under Bruening dictatorship, struggles to maintain the gold standard, and stability of the Reichsmark.... Britain's optimism over the recent export revival is dimmed only by election uncertainties. Tariffs are increasingly probable.... France sees the domestic bank situation dependent on liquidity of dollar balances; mistrusts New York's banking stability.... Latin countries appeal in vain for immediate long term credit at Washington. ...Sino-Japanese tension nears breaking point.... Major factors dominating immediate outlook: Political outcome in Germany; stability of U. S. banks.**

Politics and Hoarding Worry Business in Europe

EUROPEAN NEWS BUREAU (*Radio*)—The business situation is characterized (1) by the political crises which are coming to a head in England and Germany, (2) by the continued liquidation of international credits and the expansion of domestic hoarding, and (3) by rising prices on London commodity markets on specific news reports, regardless of financial and political uncertainties.

Hoarding Increases

Throughout Europe, increasing currency hoarding is reflected in the expansion of currency circulations and in higher rediscount rates. Gold withdrawals from the United States continue, attended by some redistribution via Paris to other countries. Dr. Burgess' explanation that the United States is in a strong monetary position, and that the Hoover credit plan is non-inflationist in character—broadcasted throughout Europe—has tended to allay prevalent misconceptions causing uneasiness, except in France.

The most notable financial development is the 3-month renewal by central banks of last August's \$100-million joint credit to Germany, and likewise the \$3-million credit to Yugoslavia; also the Bank for International Settlements' and the Bank of England's credits to Austria (\$13 millions and \$14 millions respectively), still outstanding, are now reported merged in the single joint credit of the B.I.S. with leading central banks participating, thus permitting the hard-pressed Bank of England to recover part of its stake. The Austrian Finance Minister is in Paris negotiating for the urgently-needed Austrian loan, which probably will involve the merging of the 4 largest Vienna banks under French sponsorship. The B.I.S. is calling a meeting of the countries controlling foreign exchange operations in order to unify practices and relieve various impediments to trade.

Protect Gold

Dr. Schacht's bombshell accusations that the Reichsbank is perpetrating national frauds was only momentarily startling. Germany is fighting on the last line of economic defense to preserve the gold reserve and the Reichsmark at parity. In doing so, the Bank has resorted to measures analogous to those already adopted in other places, on the one hand admitting for rediscounts, finance bills of the recently-created acceptance bank (thus paralleling Hoover's credit corporation for the same purpose to relieve credit stringency); on the other hand, including the proceeds of foreign credits in the foreign exchange reserve as did the Bank of England.

There was a deplorable necessity in Germany for recourse to these expedients, and the facts were fully known. The only important item unknown was the tabulation of German short-term foreign debts which, on the Layton reports, totaled \$1.7 billions, but which should be nearer \$3 billions. Whatever Schacht's purpose to undermine German credit—it is supposed he intended it as a contribution to the Hitlerite movement which has become a protagonist of inflation as a means of domestic economic relief—this credit no longer is based so much on the extent or the kind of its currency cover as on the confidence in the strength and integrity of Germany's leaders. Schacht's attack, instead of damaging the Bruening government, seems rather to have discredited himself and Hitlerism. The storm of domestic protest is actually strengthening the Reichsmark.

But Germany's margin of exchange reserves, after nearly \$100 millions loss in the last half of September, are desperately thin and it is questionable

Wide World

FOR RUSSIAN MINES—*Electric ore cars building at Sheffield for shipment to Russia. The Soviets sell more than they buy in England; ordinarily, this credit is transferred to this country, where they buy more than they sell. Since the fall of the pound, however, the Soviets are taking more of their British payments in trade, with orders like this as a result*

how the $25-million October payments (notwithstanding prolongation of central bank credits), can be made unless the proceeds of a favorable export trade are repatriated.

Bruening Has Chance

The fate of the Bruening government hangs in the balance as the Reichstag reconvenes. Whereas Bruening's position until now was looked upon as almost hopeless, it is now felt he has a fighting chance to win, following his powerful address and the announcement of a definite program at the opening of the Reichstag. Keynotes of the Bruening plan: Maintenance of the gold standard, formation of an economic advisory council including employers and labor to meet jointly with the cabinet, a correlated scaledown of prices and wages (legislation heretofore necessitated blanket scaledowns throughout a given industry preventing otherwise possible individual agreements), continuation of the Franco-German program for economic collaboration, and some settlement of the reparations problem.

In England, electioneering is in full swing with the prospect that the National government will be returned uncommitted to any specific program, but that it probably will be protectionist. Sterling on London security markets has held relatively steady, while wheat, cotton, rubber, and non-ferrous metals were strong at midweek.

Continental Declines Continue

Continental business conditions, however, are not improving and there are prospects of further declines, though the immediate conditions are devoid of particular developments except resurgent unrest in Spain. German consuls at 10 different posts in Russia report harvest collections 30% to 40% below expectations due to the refusal of peasants to accept the government program. Transportation is disorganized and there is an acute meat shortage.

British Industry Sees Many Hopeful Signs

Better tone in British business, subdued only by election uncertainties. ... Industry active on larger volume of export orders.... Unemployment in sharp decline.

LONDON (*Cable*)—Election possibilities are holding the attention of business, but not to the exclusion of numerous hopeful signs that there has been a distinct trade revival in recent weeks.

Wide World

SHOES FOR CHINESE—*Much of this pile of old shoes from Californian cars will go to China to make new shoes for coolies*

Cotton and woolen mills, iron and steel furnaces, and coal mines are working at full blast in several parts of the country anticipating the revival expected to follow suspension of the gold standard and reflected in last week's sharp drop of 33,000 in the unemployment total. In the Middlesborough district, some steel mills are reported to have booked enough orders to last till the end of the year. Some of the textile mills in Lancashire, which have been idle for months, have reopened. Halifax, important spinning center, is reported doing the most active business since the War, due to a rush of Continental buying, particularly of hosiery and yarns. The Chinese boycott of Japanese goods is having a stimulating effect on the cotton industry.

The short term loan market is comfortable with discount rates firm. The increase in the Federal Reserve and Bank of France discount rates was not felt in London. Sterling has hardened.

Foreign trade figures for September show an increase in imports—primarily of foodstuffs and manufactures in anticipation that tariffs will be inaugurated in late October, and of raw materials due to the mild export boom under way. Because the export revival scarcely got under way until October, the September figures were only slightly above August.

The general tone is good, with optimism subdued only by the election.

French Business Worried About World Finances

France is extremely nervous, lacks confidence in the United States and Germany, and foresees a heavy export cut if Britain raises a tariff.

PARIS (*Radio*)—Pessimism, nervousness, and fear characterize French business sentiment, though the peak seems to have passed. The week's developments in the United States, England, and Germany, all contributed. France believes and foresees a financial panic in the United States, foresees conservative elections in England followed by tariffs which will paralyze already dwindling French exports, foresees emerging from the present German chaos a nationalistic government which will stand for repudiation of the treaty of Versailles, and the end of reparations payments.

Fear Dollar Collapse

Nothwithstanding explanations by American bankers that the dollar is thoroughly secured, the French continue to be obsessed that bank collapses and a financial panic are imminent in New York, provoking the collapse of dollar exchange. A lack of confidence is placed in Hoover's credit expansion program, which is still viewed as an inflationist step. According to the best French opinion, credit inflation is the

underlying cause of the depression, and deflation on elimination of rotten assets, not their perpetuation by fresh inflation, is the remedy and the way out. Either way, a collapse of New York banks, especially those involved in Germany, is thought unpreventable.

With French short-term investments in the United States estimated at $250,000,000, and long-term at $1 billion, while foreign short-term deposits in France are over $1 billion, French fears of a financial panic in the United States mean fear for her own position. That is, France fears that any losses of American investments and repercussions of these losses upon her own banks would result in a wholesale withdrawal of foreign deposits in France, and this would precipitate a domestic bank panic. All of this indicates that France, whose panicky withdrawals from Germany and England helped to precipitate the respective crises in these 2 countries, is again demonstrating that Paris is a champion "getter-out-from-under." Paris momentarily is choked with dollar sales.

Laval's Visit to U. S.

Nationalistic developments in Germany on the eve of Laval's departure for Washington naturally have increased French feeling that Laval must be hyper-cautious not to commit France either in any unwise disarmament program, or in promises of financial aid for unfortunate neighbors until such time as political situations clarify themselves.

The Bank of France has renewed its $45-million credit to Spain which replaced the Morgan contract, added a further $6 millions, both secured by Spanish gold on deposit in France. Failure of the Banque Syndicale, in Paris, with a capital of $2 millions, is of no particular significance. The number of bankruptcies in September was well below last month's record.

Bruening May Be Savior Of German Business

Government's critical position overshadows business.... Industrial activity is falling off. Britain is offering keen competition in export markets.... Reichsbank continues to lose gold, despite restrictions.... Industry and real estate urge domestic moratoria.

BERLIN (*Cable*)—An extremely critical political situation, after the prolonged parliamentary holiday, again overshadows current business developments. Bruening's failure to form a representa-

tive National cabinet and secure the cooperation of prominent business leaders is largely due to the intrigues of big industry, which has lost faith in Bruening, is particularly disappointed over the absence in the latest emergency decree of provisions loosening the rigid wage structure of German industry.

The position of the new Bruening cabinet and the Reichstag, therefore, is critical in view of progressing disruption of the moderate Center parties, and the desperate effort of the united Nationalist opposition to defeat the Cabinet this week. Economically, the united front presented by the Nationalists at the Bad Harzburg convention means the mobilization of inflationist interests, both agricultural and industrial, against the stabilization efforts of Bruening's and Luther's followers. The amazing Schacht speech, although consisting of either gross exaggerations or misrepresentation of well known facts, nevertheless, helps to undermine the last remnants of German credit and currency stability.

Exchange Strained

The status of the Reichsbank on Oct. 7 shows a further gold and foreign exchange loss of $19 millions. Although the last day's outflow was allegedly barred, the foreign exchange situation remains strained, due to the forthcoming transfer of the next instalment of mark balances at mid-month and the uninterrupted leakage and the flight of capital in spite of the narrowed meshes imposed in the most recent foreign exchange regulations. Prolongation of the Basle $100-million Reichsbank credit, although important, is accepted as a matter of fact.

Securities Sales Curtailed

The "gentlemen's agreement" among the bankers for non-acceptance of foreign orders for sale of German securities means the unilateral extension of the Basle moratorium and discrimination against foreign investors who now paradoxically are allowed to buy, but not to sell, German securities. Critics foresee more harm to the future reputation of the German stock market than immediate gain from this ill-advised measure.

Parallel to this arbitrary extension of a foreign moratorium, industry and real estate are urging the government to issue a domestic moratorium for repayment of the revalorized paper mark bonds on mortgages with large maturities in 1932. The government is likely reluctantly to accede to the demand, although it realizes the danger that a partial moratorium in turn will drag creditors into new difficulties.

The proposed swap of Ruhr coal and Brazil coffee is indicative of the trend toward international barters. It is reported that there are incipient plans also for an exchange of Ruhr coal for Canada wheat.

Competition Keen

Industrial activities are marked by uniform recession. Cotton spinning and weaving industries are increasingly complaining of the effect of fresh British competition. Machine building in the third quarter showed orders 10% off when compared with the second quarter, and 30% below last year. Plants are now working at only 40% of capacity compared with 53% last year. The whole industry is saved from wholesale shutdown only by the volume of foreign orders, now reported to make up nearly two-thirds of total business.

Pan-American Conference More Hopeful Than Helpful

Brazil declares 60-day moratorium on commercial payments, barters coffee for German coal. . . . Pan-American conference makes recommendations, but accomplishes few concrete results.

EXCEPT for the 60-day moratorium on commercial payments in Brazil (page 32), and the coffee-coal barter between Brazil and Germany (page 31), interest in Latin America has centered in the Pan-American conference at Washington. No important concrete results have come out of it, but important changes of ideas took place.

Gist of the discussions is embodied in 4 recommendations read at the closing session:

Recommendations

(1) A recommendation that governments consider the desirability of submitting to a world conference the possibility of rehabilitating silver. The United States did not support this.

(2) Declarations that the interested countries should arrive as soon as possible at agreements necessary to reduce the burden of armaments and public debts.

(3) A request for a high degree of cooperation among central banks of the American republics.

(4) A recommendation that the American governments grant each other tariff privileges through agreements "in conformity with the Pan-American spirit."

Appeals for direct financial aid in the form of long term credit received a sympathetic hearing but no concrete response. Greatest hope rested in the belief that if the President sets up an emergency organization similar to the War Finance Corp., it will sponsor credits for foreign trade running from 6 months to 5 years, that Latin countries are likely to benefit in any such set up. Also, there was a lingering hope that amendment of the Federal Reserve Act would alleviate conditions in the long term money market.

Kemmerer Banks

Continued rumors that the central banks of Peru, Chile, Bolivia, Colombia, and Ecuador—sometimes called the Kemmerer banks because Dr. Edwin Kemmerer has been adviser to each of them at one time or another—will meet in Lima on Dec. 2 are not received with enthusiasm in Wall Street and no confirmation that the Federal Reserve will send observers is forthcoming. The aim—to win credit extension from the country just as it was granted to Germany a few years ago—is out of the question under present strained financial conditions.

Flood, Famine and War Upset the Far East

Sino-Japanese tension nears breaking point. Japan demands security from boycott. . . . Business hampered by emergency measures. . . . Prospect gloomy.

ONLY the tense political situation in Germany, the mutual financial uneasiness in France and the United States (with its sensitive reactions throughout the business world), and the political race in Britain are preventing the Far East from becoming the cynosure of all business attention.

A virtual state of war exists between Japan and China. Business in both countries is of second importance. China, divided by politics, and worried by flood and oncoming famine, is unable to present a firm united front in meeting the problem; is throwing the final responsibility for war or peace on the League of Nations.

The "1000 Affronts"

Aggressive moves this week indicate Japan's determination to force a full accounting on the Chinese without "interference or cooperation" from without. To Japan, only the Chinese can account for "1000 affronts" made in recent years on Japanese citizens

doing business in China. A Chinese government must accept responsibility for maintaining order within China.

Japan has issued a protest which sums up Tokyo's attitude: (1) China still refuses to try (effectively) to check the systematic anti-Japanese policy which has cropped up more or less chronically, especially since 1925.

(2) The anti-Japanese movement has become an instrument of national policy under the direction of the Chinese Nationalist party, which, in view of the peculiar political organization of China, is inseparable from the government. The movement does not originate spontaneously with the people. It is a hostile act, without the use of arms, contrary to all standards of justice and friendship.

Boycott Aggravates

(3) Japan holds the Chinese government responsible for anti-Japanese acts, including the boycott. Present aggression indicates Japan no longer will tolerate continuance of the boycott or other anti-Japanese manifestations, and that the country is prepared for more vigorous action if necessary.

Whatever course is adopted by the 2 countries, business can not return to normal for many months. The boycott is spreading to Chinese communities throughout the world. Britain reports that Chinese cotton goods orders already have increased. Germany is aggressively combing China for export business. Small business throughout the South Seas is largely in the hands of Chinese middlemen and retailers who are placing their orders in other countries than Japan.

Japan in the meantime is carrying on business more or less by routine. Prices on the Tokyo Exchange are up slightly. Gold—nearly $30 millions—is being shipped to the United States as a part of a plan to stabilize Japanese foreign trade.

"Pact" System on Trial

Whatever the outcome of the quarrel, and no matter how serious the results on both countries, world business is conscious that the greatest significance probably lies in the extreme weakness, if not the absolute breakdown, of the "pact" system to replace heavy armament. The entire foundation of the February disarmament conference is shaken. Disarmament, as a bargaining factor between nations, is already worth much less to the United States than it was a month ago. And nations demanding greater security pledges now have substantial backing for their arguments.

Canada Acts to Meet Depreciated Exchange

OTTAWA (*Special Correspondence*)—Canada has acted promptly to support her tariff structure and protect home industry against the effect of depreciated exchange of other countries. Also it has used Canada's adverse exchange position with the United States to raise tariffs against its neighbor.

Action was first taken in the case of British goods. An order-in-council provides that the pound sterling shall be reckoned as at par value for the purpose of the Canadian customs, also that where British goods are invoiced to Canada at the depreciated value of the pound, a dumping duty shall be applied to bring the cost of the goods to the importer up to what it would be if the pound were at par. The same course is followed in respect of other countries as they go off the gold basis.

Until the government acted large Canadian orders to Canadian textile and other manufacturing industries were being cancelled and the business transferred to Great Britain.

The government takes advantage of the exchange situation as between the United States and Canada. Customs duty is levied on the basis of the value of the American dollar in Canada. If the American exporter to Canada invoices his goods at the par value of the Canadian dollar and is accepting payment in Canadian funds at par, then a dump duty is added to bring the cost of the goods to the importer up to their value on the basis of the premium on American funds in Canada.

Many Canadian factories which had previously suffered heavy competition from the United States, now are operating to capacity and even over-time.

Tomato Cocktails Find Rival in Cranberry

THE tomato-juice cocktail, popular as a before-dinner or between-meals beverage, is to have a rival in cocktails, made from cranberries.

American Cranberry Exchange, cooperative organization of cranberry growers, has launched the new beverage, uses advertisements in daily papers to popularize it, expects it substantially to increase consumption.

Important advantages are claimed for the new cocktail: an appetizing color that everyone associates with refreshing beverages, clear and sparkling appearance, easy blending.

The Figures of the Week And What They Mean

Uncertainty regarding the trend of foreign events outweighed the few favorable factors in the domestic situation. . . . Employment data available suggests slight improvement over August, though retail sales lagged behind a year ago with the exception of the Boston district. . . . Carloadings reached the year's peak. . . . Electric power and bituminous coal production turned upward. . . . Check payments have risen sharply from the September low. . . . Commodity prices advanced. . . . The *Business Week* index of general business activity stands at 72.4% of normal compared with 71.9% the preceding week of Oct. 3.

STEEL ingot production remains practically unchanged from the estimated rating of 29% of capacity or 43% of normal production. While the activities of the national government in the formation of the National Credit Corp. served to improve the general outlook, it is too early to look for any positive stimulus in steel demand.

The decline of 24,624 tons in the unfilled orders of the U. S. Steel Corp. was in line with expectations. The lateness of Labor Day and the continued caution of manufacturing consumers were reflected in the shrinkage of orders which occurred in spite of the operating rate of less than a third of capacity. The very moderate decline, which was less than expected, compares with a crop of 235,359 tons between July and August, and suggests a slight improvement in buying volume. With the exception of 1930 and 1927, unfilled orders in September of recent years have shown increases.

Steel Orders

The Iron Age believes that a moderate improvement in demand for steel from the farm equipment, radio, railroad, and automobile industries was apparent in the past week, though the increases were not sufficiently large or general to increase the operating rate of the industry. The railroads are ordering some steel to patch up the present rolling stock rather than placing new equipment orders. The decision on the rate increase or other means of improving the financial position of the railroads was expected during the past few days and strongly stimulated railroad stock and bond prices. But the rate decision failed to be announced, so another period of cautious ordering of steel needs is to be expected.

Motor Sales

Motor car manufacturers bought less steel than the trade anticipated, but requirements for new models cannot be indefinitely delayed. Motor production at the moment is extremely low. The index of employment at Detroit on Sept. 30 declined to 51 compared with 70.4 on Sept. 15. General Motors sales to consumers in the United States in September fell off 26% from the preceding month, but were larger than sales to dealers.

Data on building construction during the first half of October are still meager. The *Engineering News-Record* reports that the volume of heavy construction is

	Latest Week	Preceding Week	Year Ago	Five-Year Average 1926-1930
THE BUSINESS WEEK INDEX OF GENERAL ACTIVITY	*72.4	†71.9	87.2	......
Production				
Steel Ingot Operation (% of capacity)	29	29	55	74
Building Contracts (F. W. Dodge, daily average in thousands, 4-weeks basis)	......	$10,213	$13,896	$19,938
Bituminous Coal (daily average, 1,000 tons)	*1,309	1,239	1,551	1,812
Electric Power (millions K.W.H.)	1,653	1,646	1,724	1,600
Trade				
Total Carloadings (daily average, 1,000 cars)	130	123	162	187
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	85	82	106	118
Check Payments (outside N. Y. City, millions)	$4,900	$4,158	$5,478	$6,261
Money in Circulation (daily average, millions)	$5,347	$5,281	$4,521	$4,832
Prices (Average for the Week)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.42	$.43	$.75	$1.16
Cotton (middling, New York, lb.)	$.063	$.057	$.104	$.165
Iron and Steel (STEEL composite, ton)	$30.78	$30.82	$32.24	$35.52
Copper (electrolytic, f.o.b. refinery, lb.)	$.068	$.068	$.098	$.139
All Commodities (Fisher's Index, 1926-100)	68.1	68.1	82.9	94.2
Finance				
Total Federal Reserve Credit Outstanding, (daily average, millions)	$1,880	$1,596	$1.025	$1,339
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$21,689	$22,107	$23,297	$21,749
Commercial Loans, Federal Reserve reporting member banks (millions)	$7,777	$7,845	$8,552	$8,983
Security Loans, Federal Reserve reporting member banks (millions)	$6,081	$6,346	$8,260	$7,023
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$928	$1,001	$2,752	$4,068
Stock Prices (average 100 stocks, Herald-Tribune)	$102.23	$99.11	$146.91	$154.01
Bond Prices (Dow, Jones, average 40 bonds)	$86.59	$85.71	$96.54	$95.82
Interest Rates—Call Loans (daily average, renewal)	1.5%	1.5%	2%	4.7%
Interest Rates—Prime Commercial Paper (4-6 months)	2-2½%	2%	3%	4.7%
Business Failures (Dun, number)	518	543	473	403

* Preliminary †Revised

running somewhat under the September level. The F. W. Dodge figures have usually shown slight improvement in October as compared with September.

A more detailed analysis of the September figures reveals that the gains over August were fairly well distributed among the various classes. Only residential, public buildings, and social and recreational structures failed to show gains over August. Commercial buildings increased 54% over the August total, while factory awards more than doubled in value.

Coal Production

Bituminous coal production increased nearly 6% during the week of Oct. 3, continuing the steady rise since Labor Day. The adjusted index rose from 57% of normal to 59%. The declining consumption of bituminous coal by the steel and railroad industries in the past 2 years, due both to the depressed level of activity in these industries as well as to more efficient utilization of coal, has seriously injured the coal trade. Consideration of the problems of the industry will be undertaken at the coming conference of producers called by the National Coal Associatior

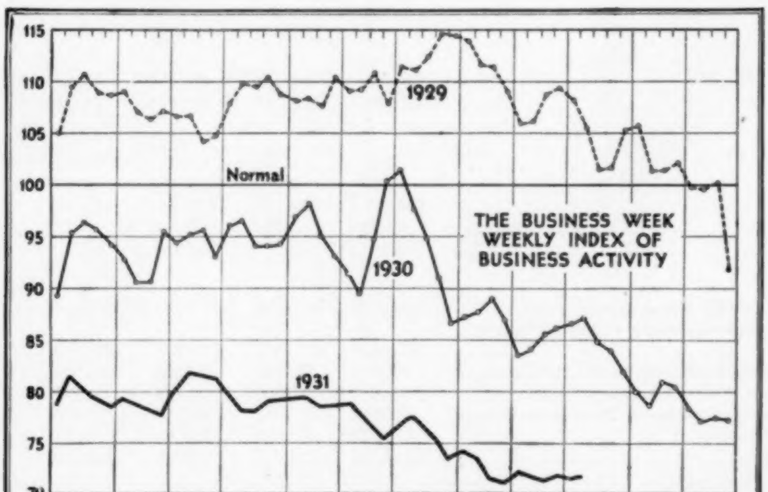
Electric power production turned slightly upward during the week just closed, but not sufficiently to change the adjusted index, which remains at 84% of normal. The fairly steady decline in output since the beginning of the year has brought the present production down to the 1928 level, and only slightly above the 5-year average.

The National Electric Light Association has analyzed the August electric output, whose total runs 3.3% under August, 1930, compared with a decline of 1.9% for the July comparison. Domestic consumption continues to compare favorably with the past 2 years. During the 8 months of 1931, domestic service gained 7.9% over the same period of 1930 and 23.7% over 1929. Large commercial users lost 8.7% from 1930 and 11.5% from 1929. Use of power by municipalities showed large increases over 1929, while street and interurban railroads reflect the declining traffic.

The sharp rise in carloadings to the peak of the year provided on the face of it more cheerful news than most observers had expected from this quarter. The danger lies in the fact that the meager total of 777,837 cars may actually be the year's peak, since the usual trend is downward in October. Coal and miscellaneous freight shipments accounted for the bulk of the advance. The latter group combined with merchandise less than carlot freight did not better the totals established early in April and May, though it is customary to regard the autumn months as the peak. The gain over the preceding week of Sept. 26 caused the index to rise from 62% to 65% of normal.

Bank Debits

September is a month of rapid increases in the volume of check payments due to the demands of trade and income tax payments. Since the low week of Sept. 9, these payments have gained over 70% in the group of cities outside of New York City. The gain of 18% in the past week of Oct. 7 has moved our adjusted index from 80% to 85% of normal.



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures—steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.

Currency circulation reached a new peak for the season since 1920, lifting our adjusted index 32% above normal compared with 31% the preceding week.

Commercial loans continue to decline against the customary trend, showing an apparent adjustment to the lower level of trade activity. The adjusted index which makes allowances for price changes now stands only 10% above normal.

The buoyant influence of the Hoover credit proposals gave a better tone to the commodity markets. Reports of the possible conflict in the Far East also stimulated interest, particularly in the cotton markets. Cocoa, coffee, sugar, cotton, and wheat rose steadily until after the Columbus Day holiday. Rubber, silk, hides, and hogs weakened.

Cotton Prices

Cotton prices reacted from the lows of Oct. 5 in spite of the report of a 16-million-bale crop. Efforts to extend credits to hold off some 7 million bales until the summer of 1932 gave some stimulus. The belief that cotton prices had hit bottom and were on an investment basis also steadied prices. Cotton consumption during the past 2 months is 19% ahead of the same period last season. Cotton cloth statistics for September were also favorable.

October wheat estimates were little changed from September.

The non-ferrous metal markets remained steady in spite of the gain of over 24,000 tons in refined copper stocks. Tin and silver advanced, while zinc weakened.

Trends of the Markets In Money, Stocks, Bonds

Foreign withdrawals of money continued large while domestic withdrawals slackened somewhat.... Another rediscount rate rise in New York inaugurates further money rate increases.... Stock prices experienced a premature reaction on speculator indecision and bank pressure.... Bonds weakened further with high grades leading.

Money Rates Again Put Up to Stem Withdrawals

THE unabated foreign run on the American banking system plus continued domestic withdrawals from banks on a scale only partly decreased by the Hoover relief plan brought still higher money rates in its wake this week.

Gold losses for the week were above $200 millions, carrying the total for 4 weeks to almost $600 millions. In addition, foreigners continued to mobilize their funds here ready for withdrawal by taking them from domestic banks and putting them in the Reserve banks.

Domestic withdrawals from banks in currency totaled $42 millions, somewhat less than for the past 3 weeks, but far above any normal increase in circulation.

The Reserve banks had to meet the combination of these 2 strains and their credit outstanding rose $286 millions to the highest point since the midsummer of 1921. The New York Federal Reserve Bank increased its discount rate 1% to 3½% following the 1% rise to 2½% last week.

More Increases Ahead

This week's bank rate rise will bring other rate increases just as did last week's step. As a result of the rise last week, acceptance rates were moved up 4 times, call money rose ½%, commercial paper mounted ¾% to 1%, the U. S. Treasury paid 2⅜% for short-term funds compared with less than ½% a few weeks ago, and Boston and Cleveland rediscount rates were boosted.

Bank strain was increased by the withdrawals both in New York and outside. Borrowings rose further than at any time since 1929, while Reserve aid through buying bills brought that portfolio to the highest point on record. Government security holdings of the Reserve banks reached a figure only once passed—in Christmas week, 1930.

Safety First

The efficacy of higher rates in this situation is dubious. Rates rarely have any effect where confidence is concerned.

Published statements that higher rates will help rest on the assumption that they will attract into use funds that remained idle when only ½% or 1% could be earned. But the need was for more funds for long-term investment, and higher short-term rates simply narrow the differential, decrease the urge. The increase in rates should increase bank earnings if asset depreciation does not offset it.

Foreign bank rates were unchanged, except for the ½% rise of the French discount rate to 2½%. French hoarding slowed down from last week but was still on a large scale. France gained some gold, but served only as a clearing house for much that she took from New York. The Bank of England bettered its position by tightening funds.

Stock Market Awaiting Answers to Many Problems

STOCK prices reacted prematurely from last week's gains, indicating that confidence is, as yet, none too strong. History shows that a recovery usually makes up about half of the previous losses in price. The recovery of last week met a major setback when only one-fourth of losses had been recovered. Motor, store, copper, and railroad shares made the best showing for the week in net, with other groups hesitant. Banking pressure on the market continued this week. Brokers' loans dropped sharply as banks withdrew funds.

The market is suffering a severe case of indecision with internal complications. What, for example, is going to result from the bank pool? the I.C.C.

rate decision? Washington's efforts to help railroad bonds? moves to aid real estate? the Sino-Japanese trouble? Germany? France? England? Laval's visit? Gandhi's visit? McGarrah's visit? firmer money?

Such an array of question marks makes market operators wonder about the contents of their draught of last week. The tendency is to remain inactive until vision clears a little and the dancing interrogation points quiet down. Of course the patient is a little better than for some recent weeks, feels considerable less gloomy, and may make some sudden moves at any time.

Short Selling Discouraged

The internal complications are not yet exactly diagnosed. The Exchange doctors have curbed short selling rather strictly, though they have not entirely eliminated it. This stops sudden contortions, but it also takes away one of the cushions which always make a weak market less uncomfortable—short covering.

Foreign selling continued in some volume this week but was reported to be lessening.

Bond Buyers More Active; Second Grades Steadiest

Bond prices turned downward again this week on renewed selling by banks and other financial institutions needing funds, accompanied by considerable selling by foreigners. Activity was greater than for many months, attesting the presence of a larger number of buyers than usual. Buying is coming chiefly from insurance companies and stronger banks and trust companies.

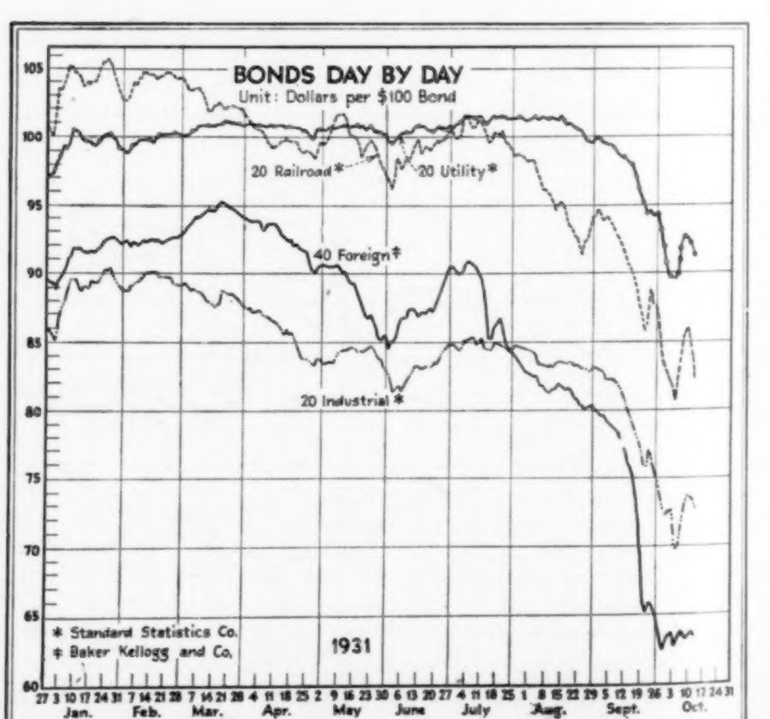
Pressure on Rails

Railroad issues were under heaviest pressure. They bulk largest in bank investments and are naturally most heavily sold in time of need. Furthermore, each month is bringing figures less favorable to these issues, and institutions find a growing list of them that they no longer want to hold.

Utilities were next in weakness, and constitute probably the second most important investment group. Industrials held up somewhat better while foreigns hung motionless on the whole at their unusually low prices. Considerable speculation continues throughout the bond list, especially in the lower-priced groups.

Second Grades Firm

The week presented the unusual spectacle of second grade bonds being stronger and more stable than high-grade issues. Bonds rated AAA by Moody's (all foreign issues are now below that classification) lost 1.2% this week, and those rated AA dropped 1.3%. Those in the A group lost but 0.8% and those classed Baa went down only 0.5%. U. S. Government issues continued weak.



JAMES W. DUBLIN, Rtd.

Chromium Man

IN London, recently, Professor Osborn stirred up the anthropologists by claiming that the Piltdown Man was the beginning of what is now us. Professor Smith does not agree with Professor Osborn. Professor Smith favors the Peking Man as the more likely ancestor of the *homo sapiens* than either the Piltdown Man or the Java Man otherwise known as *Pithecanthropus Erectus*.

These fossilar debates naturally turn our thoughts to the man who walks among us now—the Chromium Man and his Machine Age. A thousand years hence another professor, perhaps, may achieve an international reputation with a book on Chromium Man. What would the professor say?

Looking over the professor's shoulder at his manuscript I run into this:

"In Chromium Man we clearly observe the mud-pie impulses of childhood carried along into adult activity and made into a materialistic philosophy. With machines, metallurgy, and chemistry to augment manual skill his mud-pie passion shaped a distinct civilization. In Chromium Man's buildings the mud-pie sublimation particularly shows itself. Chromium Man liked to build and destroy. Demolishing was a definite business and technique and the Chromium Man was happiest when tearing down, building up, and getting himself mortgaged, for this one activity alone took billions of dollars."

Here the professor devotes two pages to an old thoroughfare called Park Avenue in New York City which he describes as a gully containing railroad tracks which in turn were roofed over and the upper surface used as a motor-car speedway. From this level rose huge dwellings illustrating, according to the professor, the mud-pie pattern in its elaborate layer variety. It was difficult to achieve architectural beauty in these buildings. The need for many windows defeated free design.

"In industry," continues the professor, "Chromium Man was likewise restive and wasteful. He was always creating new industries, but at the same time was hunting for still newer industries to supersede the old ones. He was a greedy borrower for his enterprises and never had enough funds for his multiplying projects. He also urged the public to buy on credit by means of the slot-machine mortgage or, as it was popularly known, the instalment plan.

"Throughout his entire period of development and decline Chromium Man was plagued by depressions; that is, years when his orgasmic commercial energies were subdued. The one beginning in 1929 was typical. In this period there were abundant food supplies and production facilities but people starved or severely curtailed their needs. A pamphleteer of the day remarked that here was a curious miracle in that it actually reversed the parable of the loaves and fishes.

"While we can clearly see and acknowledge that Chromium Man was the discoverer of technologies and the rudimentary mechanics of distribution which led to world productivity as we know it now, yet he was confused and defeated by his own fecundities.

"Chromium Man worshipped intricacy. To him it represented proof of the powers of his new-found dexterities. Conversely he hated simplicity and the order and dignity it implied. In his zeal to produce he involved himself in a tangled series of relationships which continually dragged him away from a compact, incisive grasp of primary problems. Hating simplicity, Chromium Man likewise opposed a stabilized universe. Even his laws compelled competition.

"Mr. Gerard Swope, a prominent industrialist of the time, propounded a plan for stabilization and pleaded for a change in the statutes. He is reported to have said that laws, like bed linen, should be changed when slept in too much.

"Chromium Man's economic thought was threaded upon a single dogma, i.e., that luxuries converted themselves into necessities as soon as the mass public became informed of them. To him the drama of economic man was as a struggler for embellishment rather than a seeker for guarantees which would protect the primary experiences of birth, mating, procreating and secured old age. Economists, like industrialists and financiers, discussed business entirely in terms of money-concepts instead of people-concepts.

"Therefore, while Chromium Man gave a tremendous onward push to industry he was never certain what industry was fundamentally related to . . ."

Space prohibits more quotations from the professor. I think he has the makings of a swell book. J.W.D.

THE BUSINESS WEEK

The Journal of Business News and Interpretation

October 21, 1931

Next Steps

BUSINESS can recover only when stability of prices is restored, for such stability is the basis of confidence. This requires prompt reestablishment of some stable standard of value and medium of exchange in every country.

Two years ago the maintenance of the existing level of prices was of extreme, though unappreciated, importance; since then the crucial question has become one of maintaining any level of prices at all, for the standard of value—money and credit—has become everywhere unstable and can no longer function as a medium of exchange.

The decline of prices and the rise in the value of money during the past two years, due to drastic contraction of credit, has caused a world-wide collapse of confidence and disorganized the world's monetary and credit machinery. As the value of money and credit has risen, and confidence in the value of commodities and securities has disappeared, a cumulative world-wide process of credit liquidation and capital hoarding has occurred.

Beginning as a flight of capital and credit from commodities and securities to gold deposits, bank balances, and the most liquid investments in the safest money centers, it has ended in an accumulation of liquidated credit in bank reserves and hoarded currency in socks and safe-deposit boxes of individual citizens, in every country, even in the United States. This has destroyed, depreciated, or rendered wholly uncertain the value of commodities, invested capital, and finally even the currencies of every country, paralyzing international and internal production and trade. Restoration of normal economic activity is impossible until such stability of values is reestablished that liquid capital and currency can resume their function as a basis of credit and a medium of exchange.

This requires concerted international action, since the flow of capital and credit between countries continues despite every restriction and makes stability of values in any country impossible without cooperation among all. And since the immediate basis of bank credit and currency values for all countries—gold—has accumulated largely in the United States and France, only these two countries can effectively act to restore the international and internal stability of values.

Hence it is imperative that, under the joint auspices of the United States and France, an international conference of financial authorities be assembled as promptly as possible to consider and act, with the full authority of their respective governments, on the means that may be taken by all countries, with the cooperation of these two nations, to maintain the international and internal values of their currencies.

Unfortunately such action is now complicated by questions which must be faced simultaneously. First is the strengthening of our own banking structure. We shall be helpless to aid in any international effort toward stabilization of values until we act effectively to restore confidence in our banking system, stop the many-sided process of internal currency hoarding and credit contraction and force our financial machinery to resume its normal functions. There are still several essential steps to be taken in this direction, to be explained in later editorials.

Secondly, problems of political security in Europe, war debts, reparations and tariff policies play an important part in the picture. These must be left largely to diplomatic treatment; but the business community need not be deterred by these difficulties from taking certain specific steps within its sphere to assist in rebuilding that confidence which is the basis of international credit. Some of these will be suggested in the next issue.

Published weekly by the McGraw-Hill Publishing Company, Inc. 330 West 42nd St., New York City. Tel. MEdallion 3-0700. Price 15¢. Subscription: $5 a year; foreign, $6; Canadian, $7.50

Publishing Director, Jay E. Mason

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